Technical Bulletin 2023/1

Technical developments and emerging risks from January to March 2023

AUDIT SCOTLAND

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors

24 March 2023

Contents

1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Professional Support is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

- information on the main technical developments in each sector during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- summaries of responses to any requests from auditors for technical consultations with Professional Support.

Appointed auditors are required by the Code of Audit Practice to pay due regard to Technical Bulletins. The information on technical developments is aimed at highlighting the key points that Professional Support considers auditors in the Scottish public sector require generally to be aware of. It may still be necessary for auditors to read the source material if greater detail is required in the circumstances of a specific audited body. Source material can be accessed by using the hyperlinks.

Any specific actions that Professional Support recommends that auditors take are highlighted in green.

Technical Bulletins are also published on the Audit Scotland website and therefore are available for audited bodies and other stakeholders to access. However, hyperlinks to source material indicated with an asterisk (*) link to files on Audit Scotland's SharePoint* and are only accessible by auditors.

Highlighted items

Professional Support highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
Professional Support has published model forms of IARs for 2022/23 [**paragraph 1**]	PAF has issued a revised edition of PN 10 [**paragraph 6**]	Treasury has issued a consultation paper on changes to asset valuation [**paragraph 9**]
Professional Support has issued guidance for auditors on cyber security [**paragraph 14**]	Professional Support has published guidance on reporting on summary financial information in 2022/23 [**paragraph 18**]	Treasury has issued guidance on preparing the 2021/22 WGA returns [**paragraph 21**]
Professional Support has published guidance on auditing 2021/22 WGA returns [**paragraph 28**]	Professional Support has issued guidance for auditors on climate change [**paragraph 35**]	The SG has issued statutory guidance on accounting for equal pay [**paragraph 37**]
The SG has issued revised statutory guidance on transformation projects [**paragraph 43**]	CIPFA has issued guidance on accounting for infrastructure assets [**paragraph 47**]	Professional Support has published two assurance protocols for 2022/23 [**paragraph 52**]
CIPFA has issued guidance notes on the 2022/23 accounting code [**paragraph 55**]	CIPFA has issued a disclosure checklist for 2022/23 [**paragraph 58**]	Audit Scotland hosted an event on asset valuation in local government [**paragraph 62**]
The Accounts Commission has published a financial bulletin on 2021/22 [**paragraph 65**]	Professional Support has published a briefing on section 106 charities [**paragraph 52**]	Professional Support has published guidance on risks of misstatement in 2022/23 annual report and accounts [**paragraphs 73 and 86**]
Treasury has issued a revised edition of the 2022/23 FReM and the 2023/24 FReM [**paragraphs 77 and 81**]	The SG has issued the accounts manual for 2022/23 [**paragraph 89**]	The SG has issued the NHS CAM for 2022/23 [**paragraph 91**]

Consulting with Professional Support

Auditors should consult with Professional Support by sending an email to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

Independent auditor's reports for 2022/23

1. Professional Support has published the following technical guidance notes (TGNs) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2022/23 annual accounts of public bodies in Scotland:

- TGN 2023/2(CG) for central government bodies
- TGN 2023/3(H) for health boards.

2. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with these TGNs. The TGNs are available with supporting material to auditors on SharePoint* and are also freely available from the Audit Scotland website.

3. The model forms of IARs set out in the appendices of the TGNs have been tailored to reflect relevant public sector legislation and augmented by the reporting requirements of the Auditor General and Accounts Commission.

4. There are a number of changes to the model forms of IAR and to the application guidance in 2022/23. These are summarised in the following table:

Area	Change
Model IARs	The description of the financial reporting framework has been removed from the 'true and fair' element of the opinion on the financial statements.
	The period of appointment disclosure has been simplified.
	The explanation of the extent to which the audit is capable of detecting irregularities has been enhanced with a view to reducing any perceived need for extensive local tailoring.
Application guidance	The guidance on the period of appointment disclosure has been revised to reflect the amendment in standard wording.
	Auditors should consult with Professional Support on any tailoring of the standard wording of the explanation of the extent to which the audit is capable of detecting irregularities.
	A new Auditor Action has been added in respect of identifying the audited parts of the Remuneration and Staff Report.

5. For the 2022/23 audits of central government bodies and health boards, auditors should:

- use the relevant model form of IAR for each audited body
- follow the specified wording other than where tailoring adjustments are set out in the application guidance in the TGN
- consult with Professional Support on any modified opinion or conclusion
- complete an Auditor Action Checklist for each IAR prepared.

Revised practice note 10

6. The Public Audit Forum has issued a revised edition of Practice Note 10 Audit of Financial Statements and Regularity of Public Bodies in the UK (PN 10). Audit Scotland's Code of Audit Practice expects auditors to pay due regard to PN 10, i.e. to either apply the guidance or explain any non-application.

7. Part 1 of PN 10 sets out how auditors of public sector bodies apply auditing standards to their work on financial statements. The aim is to support consistency in the application of auditing standards while also recognising the specific legislative and regulatory frameworks that apply to the audits of public sector bodies. Part 2 provides guidance on the approach to the audit of regularity.

8. PN 10 was last revised in 2020 and it has been updated to take account of changes to standards and other developments in the auditing profession. The main changes are summarised in the following table:

Section	Pages	Summary of proposed revisions
ISQM (UK) 1	14 - 21	There are revisions to existing material on ISQC 1 to reflect its replacement by ISQM (UK) 1 in respect of systems of quality management. Most of the proposed changes apply to contracted out audits and therefore do not apply in Scotland (which uses an appointments basis). Revisions that apply in Scotland are the following: • Paragraph 1-23 has been added to advise that public sector auditors may determine that an engagement quality review is appropriate for bodies judged to have a high public profile. • Paragraph 1-27 has been added to explain that the individual assigned operational responsibility for the system of quality management in the national audit agencies may not be eligible for appointment as a statutory auditor under the Companies Act 2006. However, the national audit agencies comply with ISQM (UK) 1 by ensuring that the individuals have levels of experience, knowledge, influence and authority such that they are capable of fulfilling the role of engagement partner as defined in auditing standards. This is considered to be equivalent to the levels required to achieve eligibility for appointment as a statutory auditor.

<table>
<tr><th>Section</th><th>Pages</th><th>Summary of proposed revisions</th></tr>
<tr><td>ISA (UK) 240</td><td>21 - 23</td><td>Paragraphs 1-40 to 1-44 have been added to provide guidance on the interaction between fraud and regularity responsibilities. This includes the following points:
• The public sector auditor’s responsibilities relating to fraud under ISA (UK) 240 are interrelated with the work that underpins the regularity opinion. However, the audit of regularity is not in itself sufficient to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud.
• The term ‘irregularities’ refers to instances of non-compliance with laws and regulations, including fraud. In the context of the regularity opinion, the term ‘irregular transactions’ refers to transactions not in accordance with the framework of authorities.
• An irregular transaction may not be an irregularity (e.g. a breach of spending controls may not be unlawful). However, it is likely that transactions relating to an ‘irregularity’ would also be irregular transactions for the purpose of the regularity opinion.
• Even where fraud does not result in misstatement of the financial statements, it may result in transactions that are not in accordance with the framework of authorities. The public sector auditor’s responsibilities under ISA (UK) 240 in respect of reporting fraud or suspected fraud extend to such cases.</td></tr>
<tr><td>ISA (UK) 315</td><td>27 - 30</td><td>There are various revisions to reflect the July 2020 revision of ISA (UK) 315. Key changes include the following:
• Paragraph 1-73 explains that ownership of a public body may not have the same relevance as in the private sector because decisions related to the body may be made outside of the body as a result of political processes. Relevant matters include understanding the ability of the body to make unilateral decisions and the ability of other public sector bodies to control or influence it.
• Paragraph 1-79 has been added to provide examples of inherent risk factors that may be particularly relevant to public bodies under the categories of inherent risk factors of complexity, subjectivity, change, uncertainty and management bias.
• The guidance in paragraph 1-80 on the situation where public bodies are required to work to annual limits on resources has been extended. It explains that the risk of transactions being recorded in the wrong accounting period is increased due to an incentive for an entity to bring forward or delay expenditure or capital additions depending on its expected outturn against these limits. The risk of misclassification is also increased as there is an incentive to recognise items in a manner that increases outturn against limits that are underspent and reduces outturn against limits that are overspent.</td></tr>
</table>

Section	Pages	Summary of proposed revisions
ISA (UK) 320	31 - 33	Existing guidance at paragraphs 1-87 and 1-88 has been expanded including providing further examples for determining materiality in the public sector. Key points include: • Attention has been drawn to paragraph A20 of ISA (UK) 450 which highlights circumstances where misclassifications between balance sheet items that do not affect the performance statement may not be considered material. • In some public bodies, the value of gross assets and/or liabilities is much higher than the value of total expenditure and income. Where the audited body has custody of significant public assets held to meet a strategic policy objective, their service potential is an important contributor to the body's ability to deliver its services, which may make them an appropriate benchmark for setting materiality for the financial statements as a whole. • Example 5 has been added on setting materiality where the audited body's accounts include a high-value portfolio of assets and liabilities held in order to meet a strategic public policy objective, but its day-to-day decision making focuses on other account balances, classes of transactions and disclosures An auditor may determine materiality for the financial statements as a whole using a benchmark based on the strategic asset or liability balances and also determine a materiality level to be applied to most or all other account balances (for example, working capital balances or actively-managed investments). The narrative confirms that no assertion is intended that such an approach is applicable to local authority audits.
ISA (UK) 570	43 - 51	The following additional clarification has been added for bodies where the financial reporting framework provides for the adoption of the going concern basis due to the anticipated continuation of the provision of a service in the future: • Paragraph 1-157 explains that the factor relevant to the auditor's work on going concern is whether the services will continue rather than the continued existence of the audited body itself. • Paragraph 1-163 clarifies that uncertainty regarding the future existence of the audited body does not create a material uncertainty, provided that this uncertainty does not also extend to the future delivery of the services.
ISA (UK) 600	52 - 54	Paragraph 1-195 has been added to provide guidance on cases where those charged with governance is unclear. It advises that those charged with governance are the persons or organisations with responsibility for overseeing the financial reporting process relating to the combined financial statements. This group may have responsibility for overseeing the strategic direction and obligations related to the accountability of the sector to which the financial information included in the combined financial statements relates.

Section	Pages	Summary of proposed revisions
Revised Ethical Standard	60 - 61	A new section has been added (paragraphs 1-229 to 1-235) on applying the revised ethical standard to the public sector. For example, paragraph 1-234 explains that it may not be possible to comply strictly with the engagement partner rotation requirements envisaged for listed entities. Nonetheless auditors establish policies and procedures to promote compliance with the spirit of the rotation requirements for significant public bodies.
Materiality for the audit of regularity	69 - 70	Paragraph 2.34 has been added to provide examples of situations when auditors may determine a materiality threshold for the audit of regularity that is different to that determined for the financial statements as a whole. These include where: • the audited body makes payments to individuals or other bodies that are of significantly greater public interest than the administrative functions of the body itself • the benchmark used to determine materiality for the financial statements as a whole has increased significantly but there remains user interest in the regularity of transactions at a more granular level • aspects of the audited body's framework of authorities and/or regulatory oversight regime indicate that quantitatively small non-compliance with the framework of authorities would be perceived more seriously than from assessing the amounts against materiality for the financial statements as a whole • the benchmark used to determine materiality for the financial statements as a whole is based on assets or liabilities and these amounts are out of proportion to the expenditure and income transactions that are subject to the regularity opinion.

Consultation on proposed changes to asset valuations

9. HM Treasury has issued a consultation paper on proposed changes to asset valuation bases for financial reporting purposes. The proposals flow from a thematic review that will affect public sector adaptations and interpretations of IAS 16 and IAS 38 in respect of the measurement of assets.

10. The consultation sets out specific proposals for change, balancing the needs of users and producers of the financial information, value for money considerations and the importance of timely financial reporting. Comments should be submitted to shikha.sharma@hmtreasury.gov.uk by Thursday 18 May 2023.

11. The valuation options are summarised in the following table:

Option	Method	Comments on proposals
1	Historical deemed cost model	The transition value for historical cost would be assumed to equal the current value of the asset at the transition date (i.e. the deemed cost). The main benefits are that this option are: • generally well understood and is less subjective than other options • easy to verify as a reliable measurement basis. The main challenges are: • the disparity between the carrying value under the historical cost model and current values can be significant • reported information will become less useful and relevant over time.
2	Fair value in accordance with IFRS	The main benefits of this option are that fair value may provide more relevant information to users of financial statements, as it is determined from the market participants' perspective and considers the highest and best use of the asset. The main challenges are that: • the constraints that typically apply with respect to disposing or changing the current use of assets in the public sector may lead this option to be less relevant • additional time and effort may be required to identify the most advantageous market, determine highest and best uses of the asset and apply appropriate valuation techniques.
3	Refinement of classes of assets with valuation method based on asset class	This option considers a reassessment of distinct asset classes and the application of a separate measurement basis for each. This enables a differentiation of the valuation approach depending on the nature of the assets. The main benefits of this option are that it: • may allow the application of a relevant and practically achievable accounting policy without undue cost and effort • enables the public sector to apply the optimum cost/benefit measurement basis for each type of asset class, depending on the nature and intended use of the asset. The main challenges are: • the different measurement bases may make aggregate measures less understandable • potential differences in judgement over the categorisation of individual assets.

Option	Method	Comments on proposals
4	Periodic reset to current valuation	There are two approaches to achieving the aims of Option 4. • The first is a periodic reset of deemed cost to current valuation. This would be an adapted historical cost model, reframing the adaptation of IAS 16 to revalue deemed cost quinquennially. • The second is to continue to apply current values but to introduce an adaptation prescribing that revaluations are only required quinquennially.

12. Treasury's preferred option is Option 3. The proposed measurement bases for the six asset categories used by the Government Financial Reporting Manual are summarised in the following table:

Category	Current measurement	Proposed measurement
Networked assets	Depreciated replacement cost (central government) Historical cost (local government)	Depreciated replacement cost for all sectors
Specialised assets	Depreciated replacement cost	Historical (deemed) cost
Non-specialised assets	Market value in existing use	Fair value

13. There are no changes proposed for heritage assets, social housing assets and surplus assets.

Guidance for auditors on cyber security

14. Professional Support has issued guidance to assist auditors consider risks related to cyber security at audited bodies as part of 2022/23 core annual audit activity. The guidance is available to auditors on SharePoint* and is also freely available from the Audit Scotland website.

15. Cyber security is the practice of defending networks and information systems against malicious attacks designed to compromise access to these systems. This guidance prepared by Audit Scotland's Digital Audit team provides information on the current landscape of cyber resilience assessment frameworks within the Scottish public sector, and provides guidance on auditors' consideration of them.

16. The guidance notes that the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. Meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23. This guidance is intended to assist auditors in that regard.

17. Auditors should refer to this guidance when meeting the requirements of ISA (UK) 315 in respect of IT risks and controls.

TGN on reporting on summary financial information in 2022/23

18. Professional Support has issued TGN/SFI/23 to provide auditors with guidance on examining and reporting on summary financial information for 2022/23. The TGN is available to auditors on SharePoint* and is also freely available from the Audit Scotland website.

19. Summary financial information refers to a structured representation of financial information that is derived from, but contains less detail than, a full set of financial statements. In some cases, an audited body may be required by its sponsoring body to produce a separate annual report that includes summary financial information. In other cases, a body may choose to produce a report or other document that contains summary financial information as defined above.

20. In either event, auditors should express an opinion on the summary financial information's consistency with the audited financial statements. TGN/sfi/23:

- provides guidance for auditors on the examination of the summary financial information
- sets out and explains the testing and reporting procedures that auditors should carry out (all summarised in the checklist at Appendix 1)
- provides a model form of report at Appendix 2.

Guidance on 2021/22 WGA returns for preparers

21. Treasury has issued guidance on preparing the 2021/22 Whole of Government Accounts (WGA) returns for local government and for central government bodies. WGA is prepared by Treasury and consolidates bodies in the UK that exercise functions of a public nature or are funded from public money. The process has been running significantly behind schedule over the last few years.

22. Data is collected for the 2021/22 WGA by bodies inputting information directly to the Online System for Central Accounting and Reporting (OSCAR II). Bodies are exempt from the WGA process if their gross expenditure, gross income, gross assets, and gross liabilities are below £30 million for both 2020/21 and 2021/22.

23. Paragraph 1.7.1 sets out the key dates for 2021/22 WGA as summarised in the following table:

Cycle	Return	Submission date
1	Unaudited	28 February 2023

Cycle	Return	Submission date	
2	Audited	31 March 2023	NB Auditors are not expected by Professional Support to meet that date if doing so would compromise audit quality.

24. A diagram at paragraph 4.2.2 of the guidance sets out the steps involved in the WGA submission process. The steps depend on whether the body is above the audit threshold. Paragraph 1.7.2 advises that the threshold for audit is breached if any of total assets (excluding property, plant and equipment), total liabilities (less pension liabilities), total income or total expenditure is above £2 billion.

25. Annex A provides a summary of the proforma tabs used to input data. Chapter 7 provides more detailed guidance on inputting data into the tabs. Paragraph 7.2.7 explains that the Audit Report is a view of all data submitted which can be shared with auditors. It may be appropriate to download the individual tabs instead, and also run the new primary financial statements report.

26. A key part of the WGA process is the elimination of transactions and balances between WGA bodies. Recording complete and accurate counter-party identifier (CPID) information is the only way in which transactions and balances between WGA bodies can be identified and eliminated. Paragraph 6.3.4 explains how bodies can run a Matches Analysis Tool which allows them to see ‘live’ published data from other bodies. Central government bodies are required to formally agree transaction streams and balances that are above £5 million with central government counterparties.

TGN on 2021/22 WGA returns for auditors

27. Professional Support has published a TGN to provide auditors with guidance on examining and reporting on the 2021/22 Whole of Government Accounts (WGA) returns of public bodies in Scotland. The TGN is provided with supporting material to auditors on SharePoint* and also on the Audit Scotland website.

28. The National Audit Office (NAO) are the group auditor for WGA. Due to late running of the WGA process, the NAO were not able to issue their Group Audit Instructions until February 2023. This consequently delayed the publication of this TGN.

29. Testing and reporting procedures that auditors are required to undertake in respect of providing assurance to the NAO on 2021/22 WGA returns above the threshold is included in the TGN. The procedures are consistent with the NAO’s Group Audit Instructions but tailored to Scottish bodies. Reporting procedures include the submission of an Assurance Statement in a form prescribed by NAO.

30. No examination is required for bodies below the threshold, although auditors are required to complete the first eight sections of the Assurance Statement (except for minor bodies) and submit it to the NAO.

31. Auditors should examine and report on the 2021/22 WGA returns of public bodies in Scotland in accordance with the TGN, and make the required submissions as soon as reasonably practicable.

Guidance for auditors on climate change

32. Professional Support has published guidance to assist auditors answer the questions set out in the Guidance on Planning 2022/23 Annual Audits (paragraph 80) on public bodies' arrangements for responding to climate change.

33. The guidance has been prepared by Audit Scotland's Climate Change central team. It is available to auditors on SharePoint* and is also freely available from the Audit Scotland website.

34. Auditors should refer to the guidance and:

- complete the Response Sheet for each public body (except those that meet the definition of Less Complex Bodies) by the target audit completion date for each sector set out in the planning guidance
- report on climate change arrangements in their Annual Audit Reports based on the factual evidence gathered for the survey. No judgements on progress or quality of strategies are required at this stage.

3: Local government sector

New statutory guidance on accounting for equal pay

35. The Scottish Government has issued Finance Circular 2/2023 which contains statutory guidance on accounting for equal pay.

36. Finance Circular 4/2015 originally contained statutory guidance which enabled a local authority to delay the financial impact arising from recognising an equal pay provision until the payment was made. That flexibility originally ceased on 1 April 2018, but Finance Circular 1/2019 extended it to 1 April 2020.

37. In light of continuing equal pay claims for some local authorities, Finance Circular 2/2023 extends the financial flexibility to cover the four-year period from 2020/21 to 2023/24. The flexibility involves the following statutory adjustment for any new or increased equal pay provision over that four-year period:

- Debit Employee Statutory Adjustment Account
- Credit General Fund/HRA.

38. Statutory adjustments related to 2020/21 and 2021/22 should be made in the 2022/23 financial statements. No prior year adjustments are required.

39. When an equal pay provision is derecognised, the deferred charge must be transferred back to the General Fund.

40. Auditors should note that the issue of this circular impacts on Module 2 of TGN 2022/8(LG)*. Specifically, it supersedes the first bullet of paragraph 21 which advises that any increase in provision since 1 April 2020 should not be deferred.

Revised statutory guidance on funding transformation projects

41. The Scottish Government has issued Finance Circular 1/2023 which contains revised statutory guidance on the scheme which permits local authorities to use capital receipts to fund projects designed to transform service delivery to reduce costs and/or reduce demand.

42. The original guidance in Finance Circular 4/2019, which applied for the four-year period from 2018/19 to 2021/22, was extended by Finance Circular 8/2022 to also apply to 2022/23.

43. Finance Circular 1/2023 adds paragraphs 14 to 17 to Finance Circular 8/2022 to prevent capital receipts generated by a disposal to an entity within the local authority's group structure from being used to fund transformation projects:

- The restriction applies prospectively from 1 April 2022. There is no requirement to retrospectively apply the restriction to capital receipts applied before that date.
- Group structure includes entities that meet the definition of subsidiaries, associates and joint ventures (even if they are not conciliated in practice).

44. The issue of this circular impacts on Module 9.8 of TGN 2022/8(LG) (at paragraphs 94 and 95). When evaluating the eligibility of capital receipts, auditors should confirm that those generated by entities within the group structure from 1 April 2022 are not used to fund transformation expenditure.

Guidance on infrastructure assets

45. CIPFA has issued Bulletin 12 to provide guidance on accounting for infrastructure assets. It covers:

- the impact of the statutory overrides set out in Finance Circular 9/2022 (explained at paragraph 11 of Technical Bulletin 2022/3)
- estimating depreciation.

46. Auditors should refer to this bulletin when following the guidance in Module 1 (paragraphs 131 to 133 and 143) of Technical Guidance Note 2022/8(LG) in respect of the statutory override for infrastructure assets. A brief summary is provided in the following paragraphs.

Impact of statutory overrides

47. The bulletin provides the following guidance in respect of each statutory override:

Override	Summary of guidance
Statutory override 1 (which permits the non-disclosure of gross cost and accumulated depreciation in respect of infrastructure assets).	Paragraphs 99 and 100 set out options for amending the format of the property, plant and equipment note to accommodate the non-disclosure. They can be summarised as follows: • An illustration is provided in Annex B. Where infrastructure assets are not separately presented on the face of the balance sheet, a short reconciling note will be required. • An alternative approach is to retain the current presentation of the note but to shade out the information on gross cost and accumulated depreciation for infrastructure assets.
Statutory override 2 (which allows the carrying amount of a replaced part of infrastructure assets to be derecognised as nil).	Paragraph 47 of the bulletin states that appropriate disclosure should be made in the financial statements where an authority decides to utilise statutory override 2. The disclosure should set out the authority's accounting policy for the derecognition amount on replacement. Annex B provides a suggested disclosure.

Depreciation

48. Paragraph 62 highlights that the depreciation method is required to reflect the pattern in which an asset's future economic benefits or service potential are expected to be consumed. Paragraph 68 advises that this is difficult for infrastructure assets as they take the form of a network of assets with many different components maintained in a relatively steady state.

49. Paragraph 70 advises that it would be reasonable to use the categories of the network that were defined in the Code of Practice on the Highways Network Asset, i.e. carriageways, footways and cycle tracks, structures, street lighting, street furniture and traffic management systems. Specific guidance includes the following:

- Paragraphs 77 to 87 provide guidance on methodologies for estimating useful lives for each category.
- Paragraph 88 provides guidance on calculating multipliers for estimating the weighted average useful lives for each category:
  - Where the local authority's highways network is in a relatively steady state, it is likely to be possible to calculate multipliers across the network on a periodic basis and revise them only where there might be evidence that they need to be updated, perhaps because spending patterns across components have changed significantly.
  - Alternatively, authorities might perform the calculations annually.
- Annex C provides illustrative examples which present information where the local authority is able to estimate information on gross cost and net book value for the different parts.

Audit assurance protocols for 2022/23

50. Professional Support has published two protocols to provide agreed frameworks for auditors to seek and provide certain assurances from auditors of other public bodies (assurance protocols). The assurance protocols are summarised in the following table:

Protocol subject	Nature of audit assurances
Local Government Pension Scheme (LGPS)	LGPS pension fund auditors request assurances from employer body auditors in respect of pension contributions payable by the employer body to the pension fund. Employer body auditors request assurances from pension fund auditors in respect of information provided by the pension fund to the actuary in relation to their reports on employer bodies.

Protocol subject	Nature of audit assurances
Integration joint boards (IJBs)	IJB auditors request assurances from the auditors of the constituent authorities regarding information not held by the IJB.

51. The assurance protocols set out the potential range of assurances but do not compel any specific assurances to be sought. It is not expected that any assurances outwith the specified range will generally be requested but that will be a matter for local agreement in 2022/23.

52. Auditors should:

- judge whether it is necessary to request any assurances from other auditors in 2022/23
- follow the agreed frameworks in each protocol when requesting or providing assurances.

Guidance on 2022/23 accounting code

53. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance notes* to support the Code of Practice on Local Authority Accounting in the UK 2022/23 (2022/23 accounting code).

54. The overall aim of the guidance notes is to explain and illustrate how to apply the accounting requirements of the accounting code, provide background to the requirements, and illustrate how they might be applied in practical situations. The guidance is not mandatory.

55. This edition of the guidance notes has been updated to reflect changes to the 2022/23 accounting code (explained in Technical Bulletin 2022/3 – paragraph 18).

2022/23 disclosure checklist

56. CIPFA has issued a disclosure checklist* for the 2022/23 financial statements. It is intended for use as an aide-memoire to assist in meeting the requirements of the accounting code.

57. The checklist is in the form of a series of questions and the implications of the answers are set out in the following table:

Answer	Implication
Yes	The accounting code is being complied with.
No	A justification for departing from the accounting code should be given. For example, a legitimate justification may be that the information resulting from a particular disclosure is not material.

58. When evaluating whether the accounting code's disclosure requirements have been met, auditors should:

- request that the body completes the 2022/23 disclosure checklist
- investigate the reasons for any non-compliance that the checklist highlights
- evaluate whether the body's responses in the checklist are consistent with auditor's knowledge.

59. Where the body declines to complete the checklist, auditors should:

- establish the alternative arrangements by which it satisfies itself regarding the completeness of disclosures
- evaluate the adequacy of the arrangements
- consider completing the checklist as part of their audit procedures, where the body's arrangements are judged not to be adequate.

Roundtable and non-current asset valuation

60. Audit Scotland hosted a roundtable event on the valuation of non-current assets in local government. The roundtable event was attended by Audit Scotland staff, Local Government Directors of Finance section, and representatives from appointed firms.

61. Attendees agreed that the overall objective is for valuations to be carried out with sufficient regularity to ensure that the carrying amount of assets in the balance sheet at the year-end should not differ materially from the current value at that date. The actions summarised in the following table were agreed:

Area	Action
Matrix approach	Each class of asset will be revalued on a rolling basis over an appropriate period not exceeding five years.
Valuation date	The valuation date should be 31 March rather than 1 April. Where the valuation exercise is carried out in-year but earlier than 31 March for reasons of expediency, any material changes in value in the interim should be adjusted for.
Definition of 'differs materially'	Local authorities should develop a working definition of 'differs materially'. This will include setting out a range of values within which any estimated change in value since the previous formal valuation would not be considered materially different from the carrying amount at the year end. It will also include an explanation of how that range was arrived at and how the change will be estimated. Auditors should evaluate whether the working definition, including the range of values, is reasonable and consistently applied.

Area	Action
Evidence to support estimate	Local authorities should provide a package of evidence that demonstrates that the carrying amount of assets not revalued in year does not breach the agreed definition of 'differs materially'. Where an estimated change in value is outwith the set range of values, this will trigger (a) a sample of assets to be subject to full revaluation or (b) possibly the application by a valuer of an appropriate index to all assets measured at DRC that were not revalued. DoFs to explore with RICs the potential for option (b).
Early engagement by auditors	Auditors should engage early and raise concerns about valuations promptly.

2021/22 financial bulletin

62. The Accounts Commission has published its annual financial bulletin of Scottish local authorities. The bulletin provides a high-level independent analysis of the financial performance of local authorities during 2021/22 and their financial position at 31 March 2022. Some key messages include the following:

- The average Council Tax collection rate increased during 2021/22, and is now more in line with pre pandemic levels.
- An increasing proportion of local government funding is now either formally ring-fenced or provided with the expectation it will be spent on specific services.
- Total usable reserves increased by £0.3 billion to £4.1 billion in 2021/22, the majority of which relates to increases in earmarked balances.
- Councils have improved the way in which COVID-19 funds are disclosed in their accounts, but the level of detail varies.

Section 106 charities accounts

63. Professional Support has issued a briefing to encourage a reduction in the number of sets of accounts of registered charities that fall within the scope of section 106 of the Local Government (Scotland) Act 1973 (section 106 charities). The briefing provides information on:

- the number of section 106 charities administered by each local authority in 2020/21
- the number of related sets of accounts.

64. Local authorities continued to administer a total of 172 section 106 charities; twelve authorities administer more than five each. In order to reduce the number of section 106 charities in 2021/22, auditors should strongly encourage authorities with multiple charities to:

- reorganise their charities through merging or winding them up, particularly when they appear to be failing to meet their charitable aims (e.g. by not disbursing funds)
- consider appointing an external trustee as this would remove the charity from the scope of section 106.

65. In the meantime, there is scope under the charity regulations for connected charities to prepare a single set of accounts. In Professional Support's view, the definition of connected charities is met for section 106 charities administered by the same local authority even where trustees differ as they meet the condition for 'unity of administration'. However, in 2020/21

- five authorities made only partial use of the connected charities provisions and produced 19 sets of accounts between them
- eight authorities made no use of the provisions and produced 32 sets of accounts.

66. Auditors should strongly encourage local authorities to make full use of the connected charities provisions in 2021/22.

2022/23 Housing benefit subsidy claims

67. The Department for Work and Pensions (DWP) has issued the 2022/23 housing benefit subsidy claim form and associated guidance* to local authorities.

68. The TGN for the certification of the 2022/23 housing benefit subsidy claims will be issued in due course.

69. Auditors should refer to the DWP guidance and the covering letter, which confirms the administration subsidy and interim subsidy received, when certifying housing benefit subsidy claims.

4: Central government sector

TGN on risks of misstatement in 2022/23

70. Professional Support has published TGN 2023/1 to provide auditors with guidance on risks of misstatement in the 2022/23 annual report and accounts of central government bodies. The TGN and supporting material is accessible by auditors on SharePoint* and is also freely available to download from the Audit Scotland website.

71. The TGN is intended to inform auditors' judgement when identifying and assessing the risks of material misstatement. The TGN supplements the Code of Audit Practice and auditors are expected to pay it due regard and use it as a primary reference source when performing 2022/23 audits. Auditors should advise Professional Support of any intended departures from the guidance.

72. The TGN comprises a number of modules as summarised in the following table:

Module	Risks of misstatement area	Purpose
Overview	Areas that are pervasive to the financial statements as a whole	Explains the appropriate related accounting treatment and sets out the action auditors should undertake to evaluate whether the body has followed the required treatment
1 - 8	Specific classes of transactions, balances and disclosures in the financial statements	
9	Irregular transactions	Explains the requirements and sets out the action auditors should undertake
10	Audited part of the Remuneration and Staff Report	
11	Statutory Other Information (e.g. Performance Report and Governance Statement)	Sets out the procedures for considering Statutory Other Information
12	Charitable NDPBs	Provides guidance on the application of the above modules to charitable NDPBs
13	Health boards	See chapter 5

73. The risks of misstatement for 2022/23 have been updated to reflect new requirements and risks which emerged during the 2021/22 audits that remain applicable. A separate note* summarises the main changes from 2021/22.

Revised 2022/23 FReM

74. HM Treasury has issued a revised version of the 2022/23 Government Financial Reporting Manual (the FReM).

75. There are no significant in-year changes from the initial version published in December 2021 referred to in Technical Bulletin 2022/1 (paragraph 48).

2022/23 GBS account information

76. Professional Support will obtain information on account balances at 31 March 2023 for central government bodies from the Government Banking Service (GBS) and distribute them to relevant auditors.

77. The GBS has confirmed that the arrangements for obtaining 2022/23 account balances are unchanged.

2023/24 FReM

78. Treasury has issued the 2023/24 FReM. The main change is a revised treatment of indexation linked payments in liabilities for service concession in accordance with IFRS 16 Leases.

79. Paragraphs 10.1.63 and 10.1.64 require the liability to be remeasured if there is a change in future lease payments resulting from a change in an index/rate used to determine those payments. This is a different treatment than under IAS 17 which requires such changes to be expensed.

80. Treasury has reissued the application guidance on IFRS 16 to provide further guidance on the FReM change from 2023/24.

Amendments to SPFM

81. The Scottish Government has issued Finance Guidance Note 2023/1 which announces amendments to the Certificates of Assurance section of Scottish Public Finance Manual (SPFM) in respect of the internal control checklist.

82. The questions in a number of sections of the checklist have been amended or reworded. The main changes are summarised in the following table:

Section	Summary of changes
Major investment	Guidance has been updated highlighting: • all major projects should undertake a Programme and Project Management (PPM) Maturity Self-Assessment which should be reviewed periodically • the Scottish Government's Principles for PPM set out a framework of activities that should be embedded to enable and control projects • all projects should articulate an accurate and up-to-date justification, proportionate to the size of the investment
Project Management	The guidance has been reviewed and amended to emphasise: • the Treasury Model and Major Investment Project Guidance • ensure where relevant, projects are registered with the Digital Assurance Office.
Fraud	• Some questions have been reworded to highlight duties around; Cyber Fraud, Scottish Government Fraud Guidance and Fraud Risk Assessments.

5: Health sector

TGN on risks of misstatement in 2022/23

83. Professional Support has published Module 13 of TGN 2023/1 to provide:

- guidance on applying the other modules to the audit of the 2022/23 annual report and accounts of health boards
- supplementary guidance on the risks of misstatements in areas specific to health boards.

84. The module is available with the rest of the TGN and supporting material to auditors on SharePoint* and is also freely available to download from the Audit Scotland website.

85. Auditors are expected to pay due regard to Module 13 and use it as a primary reference source when performing 2022/23 audits of health boards. Auditors should advise Professional Support of any intended departures from the guidance.

2022/23 accounts manual

86. The Scottish Government has issued the 2022/23 Manual for the Annual Report and Accounts of NHS Boards* (accounts manual). The accounts manual complements the guidance contained in the 2022/23 FReM but contains some additional or specific requirements.

87. The main changes arise from the implementation of IFRS 16. Other changes include the following:

- Page 10 of the accounts manual provides wording to be used to explain that the Scottish Government had paused the three-year monitoring of performance against financial targets for 2020/21 and 2021/22 due to the pandemic. However, boards are required to ensure financial balance over the three-year period (2022/23 to 2024/25).
- Pages 20 to 36 of the accounts manual been updated to clarify the disclosures in the Remuneration and Staff Report that are subject to audit.
- The guidance included in notes 3 and 4 in has been clarified to highlight that where contributions to and from IJBs are included in other lines, a footnote may be required to explain the total amounts.

2022/23 CAM

88. The Scottish Government has issued the NHS Scotland Capital Accounting Manual 2022/23* (CAM) to interpret the accounting guidance contained in the 2022/23 FReM on capital accounting issues in the health sector.

89. The main changes to the CAM for 2022/23 are to chapter 8 due to the application of IFRS 16. These include the following:

- In respect of the IFRS 16 requirement for a lessee to recognise assets and liabilities for leases, unless the underlying asset is of low value, CAM section 8.5 explains that the existing capitalisation threshold (£5,000) should be used for determining low-value assets.
- Para 8.7.2 requires irrecoverable VAT payable on lease payments to be expensed in year rather than being included in the initial measurement of the right-of-use asset and lease liability.

90. Guidance on the use of cost as a proxy for current value in existing use or fair value is provided at paragraphs 8.7.5 to 8.7.7. Paragraph 8.7.7 sets general expectations that:

- the IFRS 16 cost measurement provisions for non-property leases will be sufficient
- property leases with a specialised asset will require regular valuations to ensure appropriate measurement
- property leases with non-specialised assets will vary and local assessment will be required.

2021/22 NHS overview

91. The Auditor General has published an overview of the health sector. The report provides an overview of financial performance in 2021/22 and the financial challenges that lie ahead. Some key messages include the following:

- The response to the pandemic and a range of emerging financial pressures have exacerbated the financial position.
- There will be no further Barnett ‘consequential’ funding for pandemic-related spend, but costs will remain such those for vaccinations. These costs must now be met from the Scottish Government’s existing health and social care budget.
- Analysis of boards’ 2022/23 financial plans shows that of the 14 territorial boards, only three are predicting to break even in 2022/23 if their savings targets are met.
- The Scottish Government has given each board a COVID-19 funding budget for 2022/23 and instructed them to keep related costs within it.

6. Fraud and irregularities

This chapter contains a summary of fraud cases and other irregularities facilitated by weaknesses in internal control at audited bodies that have recently been reported by auditors to Professional Support.

Auditors should consider whether weaknesses in internal control which facilitated each fraud may exist in their bodies and take the appropriate action.

Expenditure

Grant payments

92. An unknown individual compromised a grant recipient's email account and committed bank mandate fraud. The council paid a grant of £12,300 to the fraudulent bank account.

Key features
After informing the grant applicant that their application was successful, the council received a request to change the grant recipient's bank account details. The request came from the genuine grant recipient's email account and contained an attachment on headed paper requesting the change. The bank details were then changed. The fraud was identified when the genuine grant recipient reported non receipt of the funds. The fraud could have been prevented if the council has contacted the grant recipient to confirm the bank account changes. The council have since issued bank mandate guidance for staff and existing controls have been strengthened.

Pension payments

93. A third party claimed over £6,600 from a widower's pension following their death.

Key features

A widower who was in receipt of a pension passed away. No death notification was provided to the council and therefore the pension payments continued.

A subsequent pension payment was returned by the bank. The council sent a letter to the widower's address requesting completion of a new bank mandate. A new bank mandate was emailed to the pensions team from the same email account used for the original bank mandate. The personal details provided, along with the signature, matched those on the original bank mandate and it was processed.

The fraud was identified as part of the National Fraud Initiative (NFI).

The fraud was possible as there was no consideration given to the potential risks associated with the new bank details. An internal audit investigation identified recommendations to help strengthen controls around changes to bank details.

Police Scotland identified the individual who submitted the fraudulent bank mandate and following a police caution, the individual repaid the amount in full.

Page intentionally blank

Technical Bulletin 2023/1

Technical developments and emerging risks from January to March 2023

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or
subscribe to our email alerts.

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

AS.4.0

Technical Bulletin 2023/2

Technical developments and emerging risks from April to June 2023

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors

June 2023

Contents

1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Professional Support is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

- information on the main technical developments in each sector during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- summaries of responses to any requests from auditors for technical consultations with Professional Support.

Appointed auditors are required by the Code of Audit Practice to pay due regard to Technical Bulletins. The information on technical developments is aimed at highlighting the key points that Professional Support considers auditors in the Scottish public sector require generally to be aware of. It may still be necessary for auditors to read the source material if greater detail is required in the circumstances of a specific audited body. Source material can be accessed by using the hyperlinks.

Any specific actions that Professional Support recommends that auditors take are highlighted in green.

Technical Bulletins are also published on the Audit Scotland website and therefore are available for audited bodies and other stakeholders to access. However, hyperlinks to source material indicated with an asterisk (*) link to files on Audit Scotland's SharePoint* and are only accessible by auditors.

Highlighted items

Professional Support highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
Professional Support has published a Good Practice Note (GPN) on Remuneration Reports [**paragraph 1**]	Professional Support has published guidance on Independent Auditor's Reports for local government **[paragraph 5]**	CIPFA has issued Bulletin 13 on Local Authority Reserves and Balances **[paragraph 10]**
CIPFA has issued Bulletin 14 on Closure of the 2022/23 Financial Statements **[paragraph 12]**	PWC has provided a report to support auditors when assessing information produced by actuaries in respect of the Local Government Pension scheme (LGPS) **[paragraph 31]**	LASAAC have issued updated guidance on accounting for common good funds **[paragraph 40]**
Professional Support has published guidance on objections to 2022/23 annual accounts **[paragraph 46]**	Professional Support has issued guidance for auditors on certifying the 2022/23 housing benefit (HB) subsidy claim **[paragraph 49]**	The SG has issued the 2022/23 Non-domestic rates notified return and guidance **[paragraph 54]**
The NAO has published a disclosure guide on the 2022/23 financial Statements for bodies covered by the FReM **[paragraph 58]**	The Cabinet Office has published an Employers Pension Notice on the Remuneration Report **[paragraph 61]**	Professional Support has issued a report to auditors following an examination of the CNORIS **[paragraph 65]**
The Scottish Government has issued guidance on the Junior Doctors' pay award **[paragraph 67]**	The FRC has issued an invitation to comment on proposed revisions to ISA 505 **[paragraph 71]**	The FRC has published a thematic review of fair value measurement disclosures **[paragraph 75]**

Consulting with Professional Support

Auditors should consult with Professional Support by sending an email to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

Good practice note on Remuneration Report

1. Professional Support has published a Good Practice Note (GPN) following a review of the Remuneration Reports in the 2021/22 annual accounts of a sample of public bodies in Scotland.

2. The Remuneration Report was chosen for a good practice review because of the high-profile nature of the information, along with indications that the quality of the disclosures was variable. Good practice is illustrated, where possible, using examples taken from the 2021/22 annual accounts of the bodies in the sample.

3. The review was carried out by a team in Professional Support with knowledge of the relevant financial reporting framework. However, the team does not have a detailed understanding of each body's particular circumstances or the specific underlying transactions. The GPN is available to auditors on SharePoint* and is also freely available from the Audit Scotland website. The review identified the following key messages:

- Public bodies should clearly identify the parts of the Remuneration Report that are subject to audit.
- Bodies should consider carefully how to present the required information and support significant messages with relevant context.
- Important information should be highlighted and not obscured by immaterial detail that causes clutter. To avoid clutter:
  - tables (or columns or rows) which do not contain entries should be removed
  - signposting can be used effectively to provide complementary information.
- The language used in the Remuneration Report should be clear and precise.

4. Auditors are requested to encourage their audited bodies to use the GPN to assess and enhance their own disclosures in 2022/23.

3: Local government sector

Independent auditor's reports for local government accounts in 2022/23

5. Professional Support has published Technical Guidance Note (TGN) 2023/4(LG) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2022/23 annual accounts of local government bodies in Scotland.

6. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with the TGN. The TGN is available with supporting material to auditors on SharePoint* and is also freely available from the Audit Scotland website.

7. The model forms of IARs set out in the appendices of the TGNs have been tailored to reflect relevant legislation and augmented by the reporting requirements of the Accounts Commission.

8. There are a number of changes to the model forms of IAR and to the application guidance in 2022/23. These are summarised in the following table:

Area	Change
Model IARs	The description of the financial reporting framework has been removed from the 'true and fair' element of the opinion on the financial statements.
	The period of appointment disclosure has been simplified.
	The explanation of the extent to which the audit is capable of detecting irregularities has been enhanced with a view to reducing any perceived need for extensive local tailoring.
Application guidance	The guidance on the period of appointment disclosure has been revised to reflect the amendment in standard wording.
	Auditors should consult with Professional Support on any tailoring of the standard wording of the explanation of the extent to which the audit is capable of detecting irregularities.
	A new Auditor Action has been added in respect of identifying the audited parts of the Remuneration Report.

9. For the 2022/23 audits of local government bodies, auditors should:

- use the relevant model form of IAR for each audited body

- follow the specified wording other than where tailoring adjustments are set out in the application guidance in the TGN
- consult with Professional Support on any modified opinion or conclusion
- complete an Auditor Action Checklist for each IAR prepared.

Revised guidance on reserves

10. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued Bulletin 13 Local Authority Reserves and Balances to provide guidance on the establishment and maintenance of local authority reserves and balances.

11. It replaces LAAP Bulletin 99 issued in July 2014 to reflect events since then, including changes to the Code of Practice in Local Authority Accounting in the UK (accounting code). There are no significant changes from the previous guidance.

Guidance on the 2022/23 financial statements

12. CIPFA has issued Bulletin 14 Closure of the 2022/23 Financial Statements to provide guidance on closing the 2022/23 financial statements. The guidance is intended to be best practice, but it does not have the formal status of the accounting code.

13. The following items in the guidance are relevant to Scottish local government:

- Reporting impacts of inflation and interest rates.
- Grant recognition and presentation.
- Subsequent measurement of property, plant and equipment.
- Nature and extent of risks arising from financial instruments.
- Accounting standards that have been issued but not yet adopted.
- Accounts closure processes.

Reporting impacts of inflation and interest rates

14. Section 9 of the bulletin highlights the implications of unusually high inflation and interest rates on different parts of the annual accounts. Some key points of the guidance are summarised in the following table:

Area	Summary of guidance
Property, plant and equipment	Increases in materials and labour cost will be reflected in the information used to estimate depreciated replacement cost.

Area	Summary of guidance
	There may be impacts on estimates of residual values and useful lives. For example, high fuel costs might result in inefficient assets being brought out of service earlier than originally intended.
Non-current assets held for sale	Higher interest rates have the potential to discourage buyers which increases uncertainty around whether a sale is deemed ‘highly probable’, which is one of the key classification criteria.
Impairment of assets	An impairment event is related to a specific asset so if high cost of borrowing results in a general decline in asset value, it is unlikely to be an impairment. However, inflation and the cost-of-living crisis may impact on the use of assets.
Provisions	As high inflation and increased cost of borrowing is likely to have an impact on the time value of money, provisions may require to be discounted if the effect has become material.
Financial instruments	Market expectation of higher interest rates will affect borrowing costs and investment income for any variable rate debt or investments.
Post-employment benefits	Defined benefit inflation assumptions are linked to RPI/CPI and are therefore likely to be affected by high inflation, which may result in a larger liability.

Grant recognition

15. Section 1 responds to queries on the recognition of grant income. Some key points include the following.

- In summary, all grants should be recognised in the Comprehensive Income and Expenditure Statement (CIES) unless there are conditions that have not been met.
- For grants with conditions there is a two-stage process:
  - Recognition as grants received in advance if initially conditions remain outstanding at the Balance Sheet date.
  - Recognition as income when the conditions are satisfied.
- Grants and contributions should not be recognised until there is reasonable assurance that the authority will comply with the conditions attached to them and the grants or contributions will be received.
- Reasonable assurance is not defined in the accounting code and therefore the bulletin provides the following guidance:

- Reasonable assurance is usually in the form of a written agreement or confirmation from the grant-paying body, and any conditions will be set out in the agreement.
- The authority should recognise the grant or contribution when it is satisfied that the grant or contribution will be received and it intends to comply with the conditions.

Subsequent measurement of property, plant and equipment

16. Section 3 addresses issues with the subsequent measurement of property, plant and equipment.

17. Paragraph 3.9 advises that, although the measurement process is undertaken by a valuer, the chief finance officer (CFO) needs to ensure that there are appropriate internal processes to obtain the information from the valuer. Paragraph 3.11 sets out a summary of the information requirements and the commissioning process. Local authorities are advised to discuss the processes with their valuers to ensure that clear instructions are provided, and that information requirements and timetables are understood.

18. Paragraph 3.12 advises the CFO to carry out a critical review of the valuation report and that reasonableness tests are undertaken to ensure they are happy with the estimates provided. For example, if a valuation for an asset has increased by a significant percentage the finance function should seek an explanation as to why that is the case.

19. Paragraph 3.2 highlights that many operational office premises are increasingly underused. Local authority practitioners are required to have dialogue with the valuer to provide clarity around service potential and the status of any unused parts of a building. If parts of the property are not being used, and there is no intention to do so, the appropriate treatment depends on whether they are capable of being sold or leased separately at the valuation date without interfering with the ongoing service function being provided from the retained parts:

- If separate occupation is not possible, any surplus parts would have no more than a nominal existing use value.
- If separate occupation is possible, they may be classified as either surplus assets, investment properties or ‘asset held for sale’ and measured at fair value.

Nature and extent of risks arising from financial instruments

20. Section 4 discusses the impact of the recent significant market volatility on financial instruments held by local authorities. This is particularly relevant for disclosures of the nature and extent of risks arising from financial instruments.

21. Paragraphs 4.3 to 4.5 set out issues for local authorities to consider disclosing that impact on credit, market and liquidity risks.

Accounting standards that have been issued but not yet adopted

22. Paragraph 14.3 lists the accounting standards introduced by the 2023/24 accounting code which require to be disclosed as ‘standards issued but not yet adopted’ in 2022/23. They include:

- IFRS 16 Leases (but only for those local authorities that have decided to implement IFRS 16 in 2023/24). Where an authority will implement IFRS 16 to PFI/PPP arrangements in 2023/24, information on that specific change will also be required in 2022/23.
- Definition of Accounting Estimates (Amendments to IAS 8).
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

Accounts closure processes

23. Section 7 provides guidance on closing the annual accounts faster.

24. Paragraph 7.3 lists some suggested key processes including:

- thorough planning and timetabling of stages of the process, with stringent deadlines
- follow-up and strict monitoring of progress
- robust financial management through the year so that most issues have been resolved by the year-end
- quarterly closure procedures and monitoring, e.g. Balance Sheets prepared quarterly for internal purposes.

25. Paragraph 7.6 highlights the importance of local authorities ensuring that they produce effective working papers. A clear record of the source of the original information and the treatments that have been applied will allow the confident use of the working paper and avoid work having to be re-performed. Paragraph 7.8 lists the key features of effective working papers.

26. Paragraph 7.4 notes that review and control processes are vital to produce the unaudited accounts. Working papers should be supported by clear evidence of assumptions, judgements and decisions taken by local authority management.

2022/23 disclosure checklist

27. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued a disclosure checklist* for the 2022/23 financial statements. It is intended for use as an aide-memoire to assist in meeting the requirements of the accounting code.

28. The checklist is in the form of a series of questions and the implications of the answers are set out in the following table:

Answer	Implication
Yes	The accounting code is being complied with.
No	A justification for departing from the accounting code should be given. For example, a legitimate justification may be that the information resulting from a particular disclosure is not material.

29. When evaluating whether the accounting code's disclosure requirements have been met, auditors should:

- request that the body completes the 2022/23 disclosure checklist
- investigate the reasons for any non-compliance that the checklist highlights
- evaluate whether the body's responses in the checklist are consistent with auditor's knowledge.

30. Where the body declines to complete the checklist, auditors should:

- establish the alternative arrangements by which it satisfies itself regarding the completeness of disclosures
- evaluate the adequacy of the arrangements
- consider completing the checklist as part of their audit procedures, where the body's arrangements are judged not to be adequate.

2022/23 report on actuarial information

31. Professional Support has arranged for PWC to provide a report* to support auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing information required by IAS 19 figures in respect of the Local Government Pension scheme (LGPS) as at 31 March 2023. Auditors should refer to paragraphs 15 to 27 in Module 4 of TGN 2022/8(LG) for guidance on using the report and further information.

32. PWC have confirmed the competence and objectivity of the actuaries involved in valuations for the LGPS in Scotland. They are also comfortable that in aggregate the assumptions adopted by all actuaries will lead to liabilities falling within their expected ranges for a typical employer at 31 March 2023.

33. However, the report advises auditors to consider whether:

- local issues have been adequately covered in instructions issued by employers to actuaries (page 3)
- to subject the source data provided to the actuaries by employers to further audit procedures as discussed in section 5 of the report

- to establish actual asset returns and compare them with expected returns arrived at using market indices (see page 15).

34. Page 16 highlights the impact of high inflation rates on pension increases and cashflows. All actuaries are proposing to allow for actual pension increase experience allowed for up to the reporting date, including the pension increase from April 2023 of 10.1% (which is the annual CPI inflation rate at September 2022).

35. Page 17 of the report addresses accounting for plan amendments, curtailments, and settlements (special events) under IAS 19. Auditors need to understand whether any significant special events have occurred, and whether profit and loss items have been remeasured from the date of the event for the remainder of the accounting period. This entails remeasuring both the assets and liabilities using assumptions set at this date. The report confirms that all actuaries are aware of the IAS 19 requirement.

36. Page 21 highlights the issue of pay awards, specifically the Firefighters award that has been backdated to July 2022. Backdated pay awards may have an impact on past service final salary benefits and the McCloud allowance. It will not impact service cost for 2022/23 unless employers include an estimate of the backdated pay award in the contribution data provided. Auditors will need to consider whether including an estimate of the impact of the backdated pay award on service cost is material to the audit.

37. Appendix E to the report addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet. This issue is explained at paragraph56..

IFRS 16 Leases

38. CIPFA have issued a guide* for local authority practitioners on IFRS 16 to update the guidance in IFRS 16 – An early guide for practitioners (Technical Bulletin paragraph 19) to support any local authority adopting IFRS 16 in 2022/23..

39. The guidance covers the requirements in Appendix F of the 2022/23 accounting code and the transitional arrangements for moving to these new requirements.

Accounting for common good funds

40. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) have issued updated guidance on accounting for common good funds.

41. The updated guidance supersedes previous LASAAC guidance on accounting for the common good issued in 2007. The guidance has been updated to reflect current financial management practices and relevant legislative changes. The guidance is mandatory and applies from 2022/23.

42. Common good funds should be the subject of a separate disclosure in the local authority financial statements. The disclosure should take the form of limited financial statements as set out in the following table.

43. The following minimum statements should therefore be applied:

Statement	Proposed content
Narrative Report	Narrative should briefly explain the purpose and background of the Common Good fund. Accounting policies different from the local authority's should be highlighted. Authorities should consider disclosure of their policy position on the use of common good assets and resources.
Income and Expenditure Statement (IES)	The IES should mirror the local authority CIES. Where the local authority manages several funds, they can be aggregated into one single statement. Paragraphs 2.15 and 2.16 set out respectively examples of debits and credits expected to be made to the IES. Paragraph 2.17 sets out an illustrative IES format.
Balance Sheet	Paragraph 2.19 sets out an illustrative Balance Sheet. Assets should be depreciated and set against any surplus in the income and expenditure account. Statutory adjustments are not permitted. No additional balance sheet disclosures are required.
Disclosure Notes	The level of disclosure is left to the local requirements of each local authority. There is no prescribed requirement to disclose the common good asset register, although good practice would include a direct link to the register on the Council's website as supplementary information.

2023/24 accounting code

44. CIPFA/LASAAC has issued the accounting code* to set out local government accounting requirements for 2023/24. The financial reporting framework is based on International Financial Reporting Standards (IFRS) as adopted by the UK, adapted for the local government context where necessary.

45. The most significant changes to the 2023/24 accounting code include:

Section	Amendment
3.3	Amendment to reflect changes to IAS 8, which clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The definition of 'change in accounting estimates' at paragraph 3.3.2.2 has been replaced with a definition of accounting estimates which describes them as "monetary amounts in financial statements that are subject to measurement uncertainty".

	Accounting estimates are developed if accounting policies require items to be measured in a way which involves measurement uncertainty. The effects of a change in input or a measurement technique are changes in estimates provided they do not result from the correction of a prior period error. Paragraphs 3.3.2.14 and 15 have been amended to explain that: • an accounting policy may require items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. • a local government body is therefore required to develop an accounting estimate to achieve the objective set out by the accounting policy. • a body uses measurement techniques and inputs to develop an accounting estimate. In addition, paragraph 3.3.2.18 covers the treatment of a change in an input or measurement technique.
3.4	Disclosure of Accounting Policies -Amendments to IAS 1 Presentation of Financial Statement requires an entity to disclose material (rather than significant) accounting policy information. Paragraphs 3.4.2.88 to 3.4.2.93 have been added to provide clarification that accounting policy information may be material because of its nature, even if the related amounts are immaterial. Where an entity discloses immaterial accounting policy information, such information must not obscure material accounting policy information. Paragraph 3.4.2.90 provides examples of when accounting policy information is likely to be material.
Appendix D	Confirmation of the new standards introduced to the 2023/24 accounting code: • Definition of Accounting Estimates (Amendments to IAS 8) • Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) • Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) • Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)
Appendix F	Appendix F sets out the requirements for local authorities that choose to adopt IFRS 16 on a voluntary basis. The presentation of these requirements differs slightly from Appendix F in the 2022/23 Code, so they can be applied both to local authorities that have already adopted IFRS 16 and to those that are choosing to adopt IFRS 16 in 2023/24.

Guidance on objections to 2022/23 annual accounts

46. Professional Support has published TGN 2023/5(LG) to provide auditors with guidance on the right of an interested person under section 101 of the Local Government (Scotland) Act 1973 to:

- inspect the unaudited 2022/23 annual accounts of a local government body
- object to those accounts.

47. The TGN is available with supporting material to auditors on SharePoint* and is also freely available from the Audit Scotland website.

48. Auditors should:

- evaluate whether the public inspection notice for 2022/23 is in accordance with applicable legislation
- carry out the actions set out in the TGN for any objections received.

2022/23 housing benefit subsidy claims

49. Professional Support has published TGN/HBS/23 on certifying the 2022/23 housing benefit (HB) subsidy claim. The TGN is provided with supporting material to auditors on SharePoint and is also available from the Audit Scotland website. The TGN:

- provides guidance for auditors on the examination of the HB subsidy claim, including highlighting the main risk areas
- sets out and explains an overview of the certification approach, the preliminary procedures (at section 1), testing procedures (at section 2), procedures for evaluating results and agreeing amendments (section 3) completion procedures (at section 4) and post-certification procedures (at section 5) that auditors should carry out (all summarised in the checklist at Appendix 1)
- provides examples of reporting errors and observations in a letter to the Department for Work and Pensions (DWP) at Appendix 3
- provides examples of reporting the results of any post-certification procedures at Appendix 4.

50. The TGN reflects changes to certification testing for Scottish local authorities that Professional Support has negotiated with the DWP. The changes, which are intended to increase the focus on the higher-risk areas and rationalise the level of testing required, are summarised as follows:

- The introduction of risk-based testing.
- The removal of cumulative assurance knowledge and experience testing.

- The introduction of a de-minimis level for triggering additional testing.
- Where required, additional testing is to be carried out by local authority internal audit teams.

51. The submission deadline for the HB subsidy certification is 31 January 2024.

52. Auditors should certify 2022/23 HB subsidy claims in accordance with TGN/HBS/23.

53. The following modules of the HB subsidy certification approach have been issued. Auditors should refer to these modules when certifying the 2022/23 subsidy claims:

- The uprating checklist* to help auditors ensure that the authority's system is using the correct benefit parameters to calculate benefit entitlement and for the authority to claim the correct amount of subsidy.
- The workbooks* to be completed for detailed testing.
- The software diagnostic tool* to ensure the subsidy claim has been completed using the recognised software for claim completion and reconciles "benefit granted" to "benefit paid" in accordance with the software suppliers' instructions.

2022/23 NDR return and guidance

54. The Scottish Government has issued the 2022/23 Non-domestic rates (NDR) notified return and guidance*. The most significant changes from 2021/22 are:

- the renaming of retail, hospitality, leisure, and aviation relief to retail hospitality and leisure relief
- additional detail required to categorise the relief and yield loss for unoccupied properties.

55. Professional Support has published TGN/NDR/23 on certifying the 2022/23 return. The TGN is provided to auditors on SharePoint* and also on the Audit Scotland website.

56. Auditors should certify 2022/23 NDR returns using TGN/NDR/23.

Technical consultations with auditors

Professional Support responds to requests from auditors for technical consultations

57. The following tables summarise requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2022/23 annual accounts of local government bodies, along with the advice offered:

Should bodies recognise a net defined benefit asset when the pension fund reports a surplus as at 31 March 2023?

Where bodies can access the economic benefit arising from the asset in terms of reduced contributions or a refund, they should recognise the net defined benefit as an asset. The net defined benefit asset recognised should be the surplus, adjusted for the effect of any asset ceiling. The surplus is:

- the fair value of plan assets, less
- the present value of the defined benefit obligation.

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Bodies should engage with their actuaries to help identify the asset ceiling. The emerging view is that that bodies participating in LGPS will have a minimum funding requirement as contribution rates are set in advance. In their report on IAS 19 reporting (paragraph 31), PWC comment that if a surplus arises for a scheduled body, given that this body is expected to participate in the LGPS indefinitely, it would be expected that this surplus will lead to lower future contributions by that entity. They also expect employers to consider contributions in respect of future service to be a minimum funding requirement under IFRIC 14 as they are obligated to pay them. 56.

Where there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of the estimated future service cost in each period, determined using assumptions consistent with those used to determine the defined benefit obligation, less the estimated minimum funding requirement contributions that would be required for future service in those periods adjusted for any prepayment made. The IFRS Interpretations Committee, in a decision in July 2015, conclude that when an entity estimates the future minimum funding requirement contributions, it should

- include amounts in the schedule of contributions for the fixed period specified by the schedule; and
- beyond that period, make an estimate that assumes a continuation of those factors establishing the minimum funding basis as determined by the pension trustees.

Where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised. There is no requirement to recognise a liability for the difference.

4: Central government sector

Disclosure guide for 2022/23 financial statements

58. The National Audit Office has published a disclosure guide on the 2022/23 financial Statements for bodies covered by the Government Financial Reporting Manual (FReM).

59. The guide is designed to ensure that bodies covered by the FReM have prepared their 2022/23 financial statements in the appropriate form and have complied with all disclosure requirements. The guide is cross-referenced to the 2022/23 FReM, individual financial reporting standards, and the Companies Act 2006. A tailored checklist can be generated by selecting the criteria that are material to the body.

60. When checking that the FReM's disclosure requirements have been met, auditors should in accordance with the Overview Module of TGN 2023/1:

- consider requesting that the body completes the disclosure checklist
- investigate the reasons for any non-compliance that the guide highlights
- evaluate whether the body's responses in the checklist are consistent with auditor's knowledge.

2022/23 guidance on Remuneration Report disclosures

61. The Cabinet Office has issued an Employers Pension Notice on the preparation of the pay, pension and compensation disclosures for the Remuneration and Staff Report for 2022/23.

62. An example of the disclosures is provided at Annex 13C. The EPN has been updated to reflect to the requirements of the Government Financial Reporting Manual (FReM) in 2022/23. There are no significant changes from 2021/22.

63. Auditors should refer to this guidance when auditing the 2022/23 Remuneration Report.

Technical consultations with auditors

Professional Support responds to requests from auditors for technical consultations

64. The following tables summarise requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2022/23 annual accounts of central government bodies, along with the advice offered:

How should the right of use asset initially be measured under IFRS 16 Leases in 2022/23 for bodies covered by the FReM?

For central government bodies and health boards, IFRS 16 requires the right-of-use asset, and the lease liability, to be initially measured at the present value of unavoidable future lease payments. This will include:

- fixed payments (including in-substance fixed payments)
- variable lease payments that depend on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising a termination option.

The right-of-use asset may require further adjustment for initial direct costs, prepayments or incentives, and costs related to restoration at the end of a lease.

5: Health sector

Assurance report on 2022/23 clinical negligence claims

65. Professional Support has issued a report* to auditors following an examination of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). The purpose of the report is to:

- provide assurance on the methodology used by the Scottish Government in the calculation of the CNORIS national obligation at 31 March 2023
- inform auditors' evaluation of the role of the NHS Central Legal Office as a management expert.

66. Auditors should refer to this report when auditing the 2022/23 provisions for CNORIS.

Guidance on doctors' 2022/23 pay award

67. The Scottish Government has issued guidance* on accounting for the formal pay offer to junior doctors announced in May 2023. This offer included an additional element backdated to 1 April 2022. Although the offer was subsequently rejected, the Scottish Government consider that the backdated element represents an obligation at 31 March 2023 that should therefore be recognised in the 2022/23 financial statements.

68. In Professional Support's view, the backdated element of the rejected pay award should be recognised in the 2022/23 financial statements of individual health boards, where relevant.

69. Auditors should evaluate whether the backdated element of the pay offer has been recognised in the 2022/23 accounts of individual health boards,

Technical consultations with auditor

Professional Support responds to requests from auditors for technical consultations

70. The following tables summarise requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2022/23 annual accounts of health boards, along with the advice offered:

How should activity under a service level agreement with another health board that is undelivered at the year end be accounted for?

Boards deliver a number of services to patients on behalf of other health boards under annual service level agreements (SLA). The SLA represents a contract between the two boards and payment is based on the terms of the SLA.

A board is required to account for a contract with a customer where all the criteria at paragraph 9 of IFRS 15 are satisfied including the approval by both parties and their commitment to the contract. In line with IFRS 15, boards are required to identify at the inception of the contract each performance obligation within the contract. Income should be recognised when the board satisfies each performance obligation.

The SLA process was amended for the three years from 2020/21 to 2022/23. Auditors should expect boards to consider whether each of the criteria of IFRS 15 still apply, under these amended arrangements. This includes boards consider whether:

- approval of the contract has been withdrawn by both parties
- both parties are still committed to delivering their obligations,
- performance obligations have been amended or withdrawn.

Where a performance obligation is satisfied over time, for example, where a board has delivered a percentage of the activity required, income should be recognised by measuring the progress towards complete satisfaction of that performance obligation.

Where a board has not delivered the full activity under the SLA by the year end, the board should recognise any shortfall in activity as a contract liability (deferred income).

6: Professional matters

Proposed revisions to ISA 505

71. The Financial Reporting Council (FRC) has issued a consultation on proposed revisions to International Standard on Auditing (UK) 505 External Confirmations to reflect recent enforcement findings and to ensure that the standard is reflective of modern approaches to obtaining confirmations.

72. The main proposed revisions to ISA (UK) 505 are summarised in the following table:

Area	Proposed revisions
Clarification on what constitutes an electronic external confirmation	Paragraph 6(a) has been amended to reflect that confirmations may be obtained through directly accessing information held by third parties through web portals or software interfaces.
Prohibition on the use of negative confirmations	Para graph 6(c) prohibits the use of negative confirmations, where the confirming party responds directly only if they disagree with the information provided in the request. This aims improve the quality of audit evidence obtained when auditors make use of external confirmations.
Designing confirmations to provide evidence for relevant assertions	Paragraph 7(c) includes additional material to ensure that auditors design confirmations to obtain sufficient appropriate audit evidence in relation to all assertions identified in respect of ISA (UK) 330. This is applicable to all means of confirmation but can be particularly relevant to certain forms of digital confirmation.
Enhanced requirements in relation to investigating exceptions	Paragraph 14-1 includes enhanced requirements when investigating exceptions. These direct auditors to consider if exceptions are indicative of fraud or a deficiency in the entity’s system of internal control and how follow-up procedures will allow the auditor to obtain sufficient appropriate audit evidence.

73. The proposed effective date of revised ISA (UK) 505 is for audits of financial statements for periods beginning on or after 15 December 2024.

74. The FRC is requesting comments on this consultation by 1 September 2023. Comments on the consultation paper should be sent to: AAT@frc.org.uk

Thematic review of IFRS 13 measurement

75. The FRC issued a thematic review of IFRS 13 fair value measurement disclosures. The FRC. The review has a particular focus on disclosure matters, although some measurement issues are also discussed.

76. The thematic review summarises briefly the financial reporting requirements, identifies examples of better disclosure and opportunities for improvement and highlights some key findings including the following:

- Fair value measurements should use market participants' rather than the body's own assumptions. While the transaction price usually reflects fair value, there may be circumstances where this is not the case, for example, in transactions with related parties. Bodies should ensure that appropriate adjustments are made to fair value measurements in such cases.

- Where no internal expertise exists, bodies should consider the need for specialist third party advice when considering fair value measurements.

- Disclosures should be provided for each class of assets and liabilities, determined on the basis of their nature, characteristics and risks (including climate change). When determining an appropriate level of aggregation or disaggregation, bodies should consider which provides the most useful disclosures.

- Where climate-related matters materially affect fair value measurement, bodies should explain how the impact has been incorporated into the measurement and, if relevant, quantify any significant estimation uncertainty. Simply stating that the risk has been incorporated into the fair value measurement is insufficient in such cases.

- Most issues were identified in the disclosure of recurring Level 3 measurements, for which the significant unobservable inputs should be quantified and a sensitivity analysis given. These disclosures are sometimes omitted.

Technical Bulletin 2023/2

Technical developments and emerging risks from April to June 2023

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or
subscribe to our email alerts.

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

AS.4.0

Technical Bulletin 2023/3

Technical developments and emerging risks from July to September 2023

AUDIT SCOTLAND

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors

27 September 2023

Contents

1: Introduction

Purpose

The purpose of Technical Bulletins from Audit Scotland's Professional Support is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

- information on the main technical developments in each sector during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- summaries of responses to any requests from auditors for technical consultations with Professional Support.

Appointed auditors are required by the Code of Audit Practice to pay due regard to Technical Bulletins. The information on technical developments is aimed at highlighting the key points that Professional Support considers auditors in the Scottish public sector require generally to be aware of. It may still be necessary for auditors to read the source material if greater detail is required in the circumstances of a specific audited body. Source material can be accessed by using the hyperlinks.

Any specific actions that Professional Support recommends that auditors take are highlighted in green.

Technical Bulletins are also published on the Audit Scotland website and therefore are available for audited bodies and other stakeholders to access. However, hyperlinks to source material indicated with an asterisk (*) link to files on Audit Scotland's SharePoint* and are only accessible by auditors.

Highlighted items

Professional Support highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
Treasury has issued guidance on preparing WGA returns [**paragraph 1**]	CIPFA/ LASAAC have issued an exposure draft of the accounting code for 2024/25 **[paragraph 10]**	CIPFA has issued draft guidance on applying IFRS16 leases to service concession arrangements **[paragraph 24]**
Professional Support has published Module 14 of TGN 2023/1 on the risks of misstatement specific to colleges **[paragraph 28]**	Professional Support has published TGN 2023/6(C) Model Independent Auditor's Reports for colleges **[paragraph 31]**	The SFC has issued the 2022/23 accounts direction **[paragraph 35]**
The SFC has issued guidance notes on completing the 2022/23 financial statements of colleges **[paragraph 37]**	The FRC has issued a consultation on a revised Ethical Standard **[paragraph 39]**	The FRC issued a thematic review of the Task Force on Climate-related Financial Disclosures **[paragraph 56]**

Consulting with Professional Support

Auditors should consult with Professional Support by sending an email to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

Guidance on 2022/23 WGA returns for preparers

1. HM Treasury has issued guidance on preparing the 2022/23 Whole of Government Accounts (WGA) returns for local government and for central government bodies. WGA is prepared by Treasury and consolidates the audited accounts of bodies in the UK that exercise functions of a public nature or are funded from public money. The process has been running significantly behind schedule over the last few years.

2. Paragraph 1.7.1 sets out the key dates for 2022/23 WGA as summarised in the following table:

Sector	Cycle	Return	Submission date
Central government	1	Unaudited	20 October 2023
	2	Audited	17 November 2023
Local Government	1	Unaudited	24 November 2023
	2	Audited	22 December 2023

3. Auditors are not expected by Professional Support to meet these dates if doing so would compromise audit quality.

4. Data is collected for the 2022/23 WGA by bodies inputting information directly to the Online System for Central Accounting and Reporting (OSCAR II). Bodies are exempt from the WGA process if their gross expenditure, gross income, gross assets, and gross liabilities are below £30 million for both 2021/22 and 2022/23.

5. A diagram at paragraph 4.2.2 of the guidance sets out the steps involved in the WGA submission process. The steps depend on whether the body is above the audit threshold. Section 1.7 advises that the threshold for audit is breached if any of total assets (excluding property, plant and equipment), total liabilities (less pension liabilities), total income or total expenditure is above £2 billion.

6. Annex A provides a summary of the proforma tabs used to input data. Chapter 7 provides more detailed guidance on inputting data into the tabs. Section 7.2 advises that the Audit Report is a view of all data submitted which can be shared with auditors. It may be appropriate to download the individual tabs instead, and also run the new primary financial statements report.

7. A key part of the WGA process is the elimination of transactions and balances between WGA bodies. Recording complete and accurate counter-party identifier (CPID) information is the only way in which transactions and balances between WGA bodies can be identified and eliminated. Paragraph 6.3.4 explains how bodies can run a Matches Analysis Tool which allows them to see 'live' published data from other bodies. Central government bodies are required to formally agree transaction streams and balances that are above £5 million with central government counterparties.

8. A Technical Guidance Note (TGN) on the evaluation by auditors of the 2022/23 submissions will be provided by Professional Support.

Technical consultations with auditors

Professional Support responds to requests from auditors for technical consultations

9. The following table summarises requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2022/23 annual accounts, along with the advice offered:

What are the accounting implications of the use of Reinforced Autoclaved Aerated Concrete in a body's buildings?
In December 2022, the UK government issued a notice regarding Reinforced Autoclaved Aerated Concrete (RAAC) with a guide for estates managers. RAAC was widely used in the construction of floors and roofs from the 1950s to early 1990s. However, recent investigations have identified that roof leaks could lead to the deterioration of RAAC planks. The Scottish Government are working in partnership with the UK Government on research into the extent of the use of RAAC in public buildings. The Local Government Association advised its members to check as a matter of urgency whether any buildings in their estates have roofs, floors, cladding or walls made of Reinforced Autoclaved Aerated Concrete (RAAC). A number of Scottish councils have identified buildings which contain RAAC. Bodies should be considering whether the use of RAAC in a building is an indication that the asset may be impaired.

3: Local government sector

Consultation on 2024/25 accounting code

10. CIPFA/LASAAC Local Authority Code Board has issued an exposure draft of the Code of Practice on Local Authority Accounting in the UK (the accounting code) for 2024/25. The Invitation to Comment (ITC) sets out:

- proposed revisions to the 2024/25 accounting code (Section A)
- the proposed approach to implementing IFRS 17 Insurance Contracts (Section B)
- proposals arising from CIPFA/LASAAC's strategic work plan (Section C)
- other financial reporting issues (Section D).

11. Responses to the consultation should be sent to cipfalasaac@cipfa.org by 17 October 2023.

Proposed revisions to the 2024/25 accounting code

12. The main proposed revisions to the 2024/25 accounting code relate to the implementation of IFRS 16 Leases. Implementation is mandatory in 2024/25 for any local authority that did not follow the recommendation to adopt in 2022/23 or 2023/24.

13. It is not expected that implementation will require any significant changes to the provisions set out in Appendix F to the 2023/24 accounting code. However, it is proposed to add paragraph 4.2.2.91 to reflect an amendment to IFRS 16 in respect of sale and leaseback. This will require the seller-lessee to determine 'lease payments' or 'revised lease payments' in a way that would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

14. There is also the following proposal on applying IFRS 16 to service concession arrangement liabilities in respect of first time application:

- The main difference from IAS 17 in respect of lease liabilities relates to variable payments that depend on an index or a rate. Instead of being expensed, IFRS 16 requires these to be incorporated into the liability (and subsequently amortised), based on the most recent index or rate. This applies to the extent that variable payments in the unitary charge are allocated to the asset rather than as payment for services.

- The proposal is that remeasurement should be required on the date of initial application, rather than allowing remeasurement to be deferred until the next change in payments. This would mean that, while the opening balance is initially calculated on an IAS 17 basis on 1 April, the liability would then be subject to immediate further remeasurement to reflect the effect of the index or rate on payments, based on the position at 31 March in the previous year.

15. Questions 2 and 3 in the ITC request local authority views on their readiness for IFRS 16 implementation and any further support that the Chartered Institute of Public Finance and Accountancy (CIPFA) might be able to provide.

Proposed approach to implementing IFRS 17

16. In respect of IFRS 17, it is proposed that:

- mandatory implementation will be deferred to 2025/26, with early adoption allowed
- the standard should be treated the same as the extant IFRS 4, i.e. a brief reference included in Section A of the accounting code as a standard with limited application.

CIPFA/LASAAC's strategic work plan

17. CIPFA/LASAAC has updated its strategic work plan with a focus on improving the presentation of the annual accounts and ensuring that they clearly present their key messages. Some aspects of the plan are briefly summarised in the following paragraphs.

Overview of performance and summary financial information

18. Questions 11 to 15 ask for views on proposals to add a new section to the Narrative Report to give an overview of performance and summary financial information. This would be on a voluntary basis for 2024/25.

19. This proposal is based on a requirement of the Government Financial Reporting Manual (FReM) for a performance overview. The aim is to provide users with a short summary that provides them with sufficient information to understand the body, its purpose and objectives, the outcomes it wants to achieve, its performance against delivering those outcomes and/or objectives, and the impact and management of key risks. The specific requirements are set out at paragraphs 3.1.1.5 to 3.1.1.7.

20. The required summary financial information would reconcile to the information produced in the financial statements, include key financial elements of performance, and demonstrate at a high level the authority's financial position. The detailed requirements are set out at paragraph 3.1.1.8 but in summary include the following:

- A summary of service outturn per service in comparison to the budget and reconciled to the amounts charged to revenue in accordance with statutory provisions in the Expenditure and Funding Analysis

- An analysis of outturn against spend for the Housing Revenue Account.
- A summary of the financial position based on the Balance Sheet
- An analysis of an authority's usable reserves.
- An authority's capital expenditure for the current and preceding year, forecast for the following three years, and a short explanation of the capital programme.
- The capital financing requirement, borrowing as a proportion of a council's total income for the current and preceding year and forecast for the following three years, and an explanation of what the trends indicate in terms of capital financing.
- A summary of any significant commercial activities and their risks.

Changes to the structure/format of the code

21. CIPFA/LASAAC is seeking views on restructuring the accounting code at questions 16 to 21 in the ITC. The main issues are summarised in the following table:

Issues	Views requested on whether the….
Accessibility	structure and format of the accounting code allows its provisions to be easily understood and usable.
Approach to content of IFRS	detailed provisions of standards should no longer be presented (similar to the approach adopted by the FReM).
Adaptations and interpretations	adaptations and interpretations are clearly presented and easily identified
Structure of the Code	structure of the accounting code should follow the order in which the financial statements are presented by local authorities (as set out in the table at paragraph 68 of the ITC).
Statutory accounting provisions	specifications for statutory adjustments should be brought together in one place, such as alongside the provisions for the Movement in Reserves Statement.

Sustainability reporting

22. CIPFA/LASAAC is considering whether sustainability reporting requirements should be explicitly included in the accounting code. It is of the view that the requirements should follow international and UK public sector best practice, but considers that in several areas it is not yet well developed. Question 22 therefore asks stakeholders what they consider is the best approach to the introduction of sustainability reporting in local government.

Other financial reporting issues

23. A new section has been introduced to the ITC which features issues which impact on local authority financial reporting or other emerging issues. These include asking stakeholders for views on:

- where the requirements of the accounting code might be changed to ease the burden on the local audit and accounts preparation system
- whether any additional specifications are required in the accounting code on the net defined benefit pensions asset and calculation of an asset ceiling
- the impact of new IPSASs 45 to 48 on the accounting code to the extent they augment the interpretations for the local government context.

Draft guidance on applying IFRS 16 to service concession arrangements

24. CIPFA has issued draft guidance on applying the requirements of IFRS 16 to service concession arrangements. It sets out the aspects of accounting which are different as a result of the change from IAS 17 to IFRS 16, and provides illustrative examples.

25. Where local authorities implement IFRS 16 in 2022/23 they can opt out of applying the standard to service concession arrangements. However, where IFRS 16 is implemented for leases in 2023/24, it must also apply to service concession arrangements. This is summarised in the following table:

Financial year	Application to leases	Application to service concession arrangements
2022/23	Voluntary	Voluntary
2023/24	Voluntary	Mandatory if applied to leases
2024/24	Mandatory	Mandatory

26. Auditors should refer to this guidance where a local authority applies IFRS 16 to service concession arrangements.

Technical consultations with auditors

Professional Support responds to requests from auditors for technical consultations

27. The following tables summarise requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2022/23 annual accounts of local government bodies, along with the advice offered:

Should bodies recognise a net defined benefit asset when the pension fund reports a surplus as at 31 March 2023?

Where bodies can access the economic benefit arising from the asset in terms of reduced contributions or a refund, they should recognise the net defined benefit as an asset. The net defined benefit asset recognised should be the surplus, adjusted for the effect of any asset ceiling. The surplus is:

- the fair value of plan assets, less
- the present value of the defined benefit obligation.

The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Bodies should engage with their actuaries to help identify the asset ceiling. The emerging view is that that bodies participating in LGPS will have a minimum funding requirement as contribution rates are set in advance. In their report on IAS 19 reporting (paragraph 31), PWC comment that if a surplus arises for a scheduled body, given that this body is expected to participate in the LGPS indefinitely, it would be expected that this surplus will lead to lower future contributions by that body. They also expect employers to consider contributions in respect of future service to be a minimum funding requirement under IFRIC 14 as they are obligated to pay them.

Where there is a minimum funding requirement for contributions relating to future service, the economic benefit available as a reduction in future contributions is the sum of the estimated future service cost in each period, determined using assumptions consistent with those used to determine the defined benefit obligation, less the estimated minimum funding requirement contributions that would be required for future service in those periods adjusted for any prepayment made. The IFRS Interpretations Committee, in a decision in July 2015, conclude that when an entity estimates the future minimum funding requirement contributions, it should:

- include amounts in the schedule of contributions for the fixed period specified by the schedule; and
- beyond that period, make an estimate that assumes a continuation of those factors establishing the minimum funding basis as determined by the pension trustees.

An estimate cannot be determined to be accurate or inaccurate, but it can be considered reasonable if:

- the method used in making the accounting estimate is appropriate
- the underlying assumptions are sound
- the body has considered and addressed the effect of estimation uncertainty
- the amount is described clearly as being an estimate

Should bodies recognise a net defined benefit asset when the pension fund reports a surplus as at 31 March 2023?

- the nature and limitations of the estimating process are explained
- no errors have been made in selecting and applying an appropriate process for developing the estimate.

Where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised. There is no requirement to recognise a liability for the difference.

4: College sector

TGN on risks of material misstatement in 2022/23

28. Professional Support has published Module 14 of TGNote 2023/1. The TGN is intended to inform auditors' judgement when identifying and assessing the risks of material misstatement in the 2022/23 annual report and accounts of central government bodies generally. Module 14 provides:

- guidance on applying the other modules to the audit of the 2022/23 annual report and accounts of colleges
- supplementary guidance on the risks of misstatements in areas specific to colleges

29. Module 14 is available with the rest of the TGN and supporting material to auditors on SharePoint* and is also freely available to download from the Audit Scotland website.

30. Auditors are expected to pay due regard to Module 14 and use it as a primary reference source when performing 2022/23 audits of colleges. Auditors should advise Professional Support of any intended departures from the guidance.

Independent auditor's reports for college accounts in 2022/23

31. Professional Support has published TGN 2023/6(C) to provide auditors with model forms of Independent Auditor's Reports (IAR) which should be used for the 2022/23 annual accounts of colleges in Scotland.

32. Auditors are required by the Code of Audit Practice to prepare their IARs in accordance with the TGN. The TGN is available with supporting material to auditors on SharePoint* and is also freely available from the Audit Scotland website.

33. The model forms of IARs set out in the appendices of the TGNs have been tailored to reflect relevant legislation and augmented by the reporting requirements of the Auditor General.

34. There are a number of changes to the model forms of IAR and to the application guidance in 2022/23. These are summarised in the following table:

Area	Change
Model IARs	The description of the financial reporting framework has been removed from the 'true and fair' element of the opinion on the financial statements.
	The period of appointment disclosure has been simplified.
	The explanation of the extent to which the audit is capable of detecting irregularities has been enhanced with a view to reducing any perceived need for extensive local tailoring.
Application guidance	The guidance on the period of appointment disclosure has been revised to reflect the amendment in standard wording.
	Auditors should consult with Professional Support on any tailoring of the standard wording of the explanation of the extent to which the audit is capable of detecting irregularities.
	A new Auditor Action has been added in respect of identifying the audited parts of the Remuneration Report.

2022/23 accounts direction

35. The Scottish Funding Council (SFC) has issued their Accounts Direction for Scotland's Colleges 2022/23. The direction requires colleges to:

- comply with the SORP in preparing their financial statements
- include a Performance Report and Accountability Report in their annual report and accounts in accordance with the FReM.

36. Specific mandatory disclosure requirements for colleges are set out in Appendix 2 to the direction. The main changes are as follows:

- Paragraph 11 confirms that the 2016 version of the Code of Good Governance for Scotland's Colleges continues to apply for 2022/23. The revised version issued in September 2022 will be adopted in 2023/24.
- References in the Performance Report and Governance Statement to COVID-19 have been removed. Disclosures should reflect the impact of current geopolitical issues and exceptional inflationary pressures on the sector.

Guidance on 2022/23 financial statements

37. The SFC has issued guidance notes on completion of the 2022/23 financial statements which are designed to supplement the accounts direction. The guidance covers key disclosures in the financial statements, including model disclosure notes set out at Annexes A to F.

38. There are no significant changes from 2021/22.

5 Professional matters

Proposed revisions to Ethical Standard

39. The Financial Reporting Council (FRC) has issued a consultation on a revised Ethical Standard. The purpose of this revision is to:

- take account of changes to the International Ethics Standards Board for Accountants (IESBA) Code of Ethics;
- respond to issues identified through audit inspection
- provide greater clarity in respect of specific prohibitions and requirements
- allow consultation on whether to withdraw the Other Entities of Public Interest category.

40. The key changes being consulted on are outlined in the following paragraphs.

Breaches

41. There is a proposed requirement for firms to design controls which effectively identify reportable breaches.

42. The concept of 'inadvertent' breaches (i.e. those which do not necessarily call into question the firm's ability to give an opinion) has been proposed. Clarification has been provided to explain which breaches cannot be inadvertent including:

- a deliberate breach either by an individual or a firm
- If a breach occurred due to a firm's ineffective policies or procedures.

43. When a requirement is breached, the engagement partner and ethics partner would need to consider the situation and actions required from the perspective of an objective, reasonable and informed third party. The proposed revised standard highlights examples where individual breaches should be reported outwith the normal timetable.

44. Other proposals include:

- requiring engagement partners to report the details and significance of any breaches to those charged with governance of each entity
- requiring a firm, in its assessment of whether to accept or continue any engagement, to document any breaches of the standard and actions taken in response.

Identification of safeguards

45. Paragraph 1.46 proposes additional requirements and prohibitions that would apply to specific categories of entity. The consultation seeks views on whether such enhancements could be made to other areas of the standard.

Financial relationships

46. Paragraphs 2.3 and 2.4 have been revised to clarify requirements set by the standard and those set by statute regarding personal financial independence for engagement teams and other staff.

47. Paragraphs 2.5 to 2.10 provide further guidance on financial interests, for example those held by trustees. Paragraph 2.9 and 2.10 have been clarified to explain the actions to be taken where financial interests are not permitted to be held.

Long association with engagements

48. Clarification has been provided in paragraphs 3.22 and 3.23 to explain that:

- once an engagement partner has completed the maximum allowed period, they cannot act as engagement quality reviewer for that engagement for another five years
- where an engagement partner rotates off an engagement after five years, the option to extend for an additional two years is no longer available.

49. A table setting out the rotation periods for key audit partners has been included at paragraph 3.23. Guidance has been provided detailing the impact that significant gaps of service have when calculating rotation periods.

Fees

50. Section 4 proposes enhancements to the prohibitions in relation to fees. Calculations used to determine whether an audit firm is over reliant on fees have been amended to include fees from entities that are connected in substance.

Non-audit/additional services

51. Changes to section 5 on non-audit/additional services are being proposed to align more closely with changes to the IESBA Code including:

- information technology services to reflect restrictions on audit firms providing hosting services to audited entities [paragraphs 5.53-5.54]
- enhanced tax service prohibitions [paragraph 5.67]
- recruitment and remuneration services, where audit firms provide related services [paragraph 5.89]
- corporate finance services relating to the provision of advice to audited entities on debt and financial instruments
- internal audit to provide examples of activity that would be classed as internal audit services.

52. An example of non-audit services has been provided to aid clarity.

53. Documentation requirements in respect of non-audit/additional services have been enhanced to require inclusion of:

- the safeguards adopted, and the reasons why they are considered to be effective, in responding to the specific threats identified
- any significant judgements concerning the potential threats and proposed safeguards
- how the objective and reasonable third-party test has been applied.

54. The proposed effective date of the revised standard will be for financial periods commencing on or after 15 December 2024. Comments on the consultation paper should be sent to: AAT@frc.org.uk by 31 October 2023.

Thematic review of climate related disclosures

55. The FRC has issued a thematic review of the Task Force on Climate-related Financial Disclosures (TCFD) mandated in the annual accounts of premium listed companies.

56. The overall conclusion of the review was that the availability and quality of climate-related data is still evolving. The review identified good practice as well as opportunities for improvement.

57. The review focused on the following four key questions:

Key question	Observations	Expectations/required improvements
Has reporting of climate-related metrics and targets improved since last year?	Entities' reporting of climate-related metrics has improved incrementally with greater consideration of cross-sector and sector-specific metrics. Due to the high volume of information to be presented, many entities are struggling to clearly present the material metrics and targets. The consistency with the TCFD framework including clearer statements about data that is not yet available improved.	The definition and reporting of entity-specific metrics and targets, beyond the headline 'net zero', should be disclosed. Better linkage is required between the climate-related metrics and targets and the risks and opportunities to which they relate. Explanation is required of year-on-year movements in metrics and performance against targets. Transparency is needed about internal carbon prices, where used. Better linkage is needed between climate-related targets in TCFD disclosures and other related targets disclosed.

Key question	Observations	Expectations/required improvements
Are entities adequately disclosing their plans for transition to a lower carbon economy, including interim milestones and progress?	Most entities have set net-zero or other climate-related targets, but the metrics used to track progress are unclear and explanations of performance are not always provided. It was unclear whether interim emission targets covered all business activities or how the entity planned to meet interim targets.	Disclosures should include the expected steps to meet targets, highlighting areas of judgement and uncertainties. A review should be undertaken of the Transition Plan Taskforce guidance and consideration given as to how best to articulate their targets and plans for transition.
Are entities using consistent and comparable metrics?	Some commonality was identified but methodological differences due to entity-specific adjustments made direct comparisons challenging.	TCFD cross-sector and industry-specific metrics should be used to aid comparability. Details of the methodology applied when calculating non-standard metrics should be provided to aid comparability.
Are entities explaining how their targets have affected the financial statements?	Most entities provided some explanation of how climate was considered in the financial statements. However, it was often difficult to determine the extent of the impact of targets on the financial statements, due to a lack of entity specific disclosures. The connectivity between information included in narrative reporting and financial statements disclosures was mixed.	Where climate-related targets and transition plans could impact the financial statements, entities should explain the assessments undertaken and any impacts on the financial statements.

58. Through their reviews of company reporting, the FRC have included some areas that entities should consider when reporting on metrics and targets. This includes clarity, balance and avoiding undue focus on immaterial areas of the business.

New standards on disclosure of sustainability-related financial information

59. The International Sustainability Standards Board (ISSB) has issued two financial reporting standards setting out the overall requirements for disclosing sustainability-related financial information.

60. IFRS S1* requires entities to disclose information about sustainability-related risks and opportunities that could impact on the entity's cash flows, access to finance or cost of capital over the short, medium and long term. It requires an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.

61. Sustainability-related financial information should therefore include information about the entity's:

- governance processes, controls and procedures used to monitor and manage the risks and opportunities
- strategy and approach used to manage the risks and opportunities
- risk management processes used to identify, assess, prioritise and monitor risks and opportunities
- performance metrics and targets including progress towards any targets the entity has set or is required to meet by law or regulation.

62. IFRS S2* requires entities to disclose information about its climate-related risks and opportunities that is useful to users of the financial statements. The disclosures are summarised in the following table:

Area	Explanation
Governance	Processes, controls and procedures an entity uses to monitor and manage climate-related risks and opportunities. This includes disclosures on: • details of the governance body responsible for climate-related matters and, for example, how that body determines whether the skills and competencies are available or need to be developed in this area, how climate-related risks and opportunities are considered when making decisions, and how often it receives performance information. • management's role in the governance process including the controls and procedures used to support oversight of climate-relates risks and opportunities and how these integrate with other internal functions.
Strategy	Disclosures to explain the entity's strategy for managing climate-related risks and opportunities. This includes disclosure on: • climate-related risks and opportunities that are expected to affect the entity's prospects and the effect of the risks and opportunities on the business model, decision making, strategy, and financial position • the resilience of the entity's strategy and business model to climate-related risks and opportunities.

Area	Explanation
Risk management	Disclosure on the risk management arrangements and policies including how the entity identifies, assesses, prioritises, and monitors climate-related risks and opportunities and how these processes are integrated into the entity's overall risk management process. This includes disclosing information on: • climate-related scenario analysis used to inform the identification of risks and opportunities • how the entity assesses the nature, likelihood, and magnitude of the effect of risks • prioritisation of climate-related risks relative to other risks • the process for monitoring risks.
Metrics and targets	Performance information to allow users to understand progress made against climate-related targets set internally or required by law or regulations. Entities are required to disclose information on: • cross-industry metrics eg greenhouse gases • industry-based metrics where applicable • qualitative and quantitative climate-related targets.

63. Applying these standards, with additional disclosure when necessary, is presumed to result in a fair presentation.

Technical Bulletin 2023/3

Technical developments and emerging risks from July to September 2023

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or
subscribe to our email alerts.

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

AS.4.0

Technical Bulletin 2023/4

Technical developments and emerging risks from September to December 2023

AUDIT SCOTLAND

Prepared by Audit Scotland for appointed auditors and audited bodies in all sectors

18 December 2023

Contents

1: Introduction

Purpose

The purpose of Technical Bulletins from the Professional Support section within Audit Scotland's Innovation and Quality business group is to provide auditors appointed by the Auditor General for Scotland and Accounts Commission for Scotland with:

- information on the main technical developments in each sector during the quarter
- information on professional matters during the quarter that are expected to have applicability to the public sector
- summaries of responses to any requests from auditors for technical consultations with Professional Support.

Appointed auditors are required by the Code of Audit Practice to pay due regard to Technical Bulletins. The information on technical developments is aimed at highlighting the key points that Professional Support considers auditors in the Scottish public sector require generally to be aware of. It may still be necessary for auditors to read the source material if greater detail is required in the circumstances of a specific audited body. Source material can be accessed by using the hyperlinks.

Any specific actions that Professional Support recommends that auditors take are highlighted in green.

Technical Bulletins are also published on the Audit Scotland website and therefore are available for audited bodies and other stakeholders to access. However, hyperlinks to source material indicated with an asterisk (*) link to files on Audit Scotland's SharePoint* and are only accessible by auditors.

Highlighted items

Professional Support highlights in the following table a selection of the items in this Technical Bulletin that are of particular importance:

Highlighted items		
Professional Support has issued guidance on planning the 2023/24 audits [**paragraph 1**]	Professional Support has issued a TGN on the 2022/23 WGA returns **[paragraph 6]**	Professional Support has issued a TGN on the risks of misstatement in the 2023/24 audit of local government bodies **[paragraph 10]**
The Scottish Government has issued guidance on accounting for capital grants **[paragraph 14]**	CIPFA has published guidance on the reporting of pension surpluses and the asset ceiling **[paragraph 19]**	The Scottish Government has issued a consultation on proposed amendments to calculating repayments to loans fund advances **[paragraph 23]**
The Scottish Government has issued a consultation on statutory guidance on accounting for service concession arrangements **[paragraph 33]**	The Scottish Government has issued a consultation on a proposed extension to the statutory overrides for infrastructure assets **[paragraph 38]**	Treasury has issued a PES paper on discount rates **[paragraph 43]**
The FRC has issued a revised auditing standard on external confirmations **[paragraph 49]**	The FRC has issued proposals for a revised auditing standard on laws and regulations **[paragraph 50]**	The FRC has published a thematic review of audit sampling **[paragraph 53]**

Consulting with Professional Support

Auditors should consult with Professional Support by sending an email to TechnicalQueries@audit-scotland.gov.uk.

2: All sectors

Guidance on planning 2023/24 annual audits

1. Professional Support has issued guidance to assist all appointed auditors in planning their 2023/24 annual audits of public bodies. The guidance supplements the Code of Audit Practice and sets out the range of core annual audit activity and related outputs required for 2023/24, and the timescales for completing the audit in each sector.

2. Auditors should comply with the guidance when planning, performing and reporting their 2023/24 audits. The guidance is accessible by auditors with other supporting materials on SharePoint* but it is also freely available from the Audit Scotland website.

3. The largest component of core annual audit activity is the audit of a public body's annual accounts. However, the audit of the annual accounts has a wider scope than the private sector, and requires conclusions on aspects of public bodies' arrangements and performance. In local government, public audit includes considering arrangements to secure Best Value and community planning and publishing performance information. Auditors also provide important intelligence to the Auditor General, Accounts Commission and Audit Scotland in areas where they are best placed to do so.

4. Audit Scotland's policy is not to compromise on audit quality or the wellbeing of audit teams, but that timescales are negotiable. The guidance is intended to strike the right balance in 2023/24 between ambitions for public audit and the capacity for auditors to carry out the work to the appropriate high quality. Target audit completion dates are considered to be stretching but achievable for the majority of audits.

5. The following table provides a summary of the key changes from last year, along with the paragraphs of the guidance in which further information is provided:

Nature of change	Paragraph
Removal of the cap of £250,000 on the 'clearly trivial' threshold for accumulating and reporting misstatements.	21
No mandated wider scope areas of risk for auditors to consider.	61
Updated guidance on auditing Best Value in local authorities to reflect the thematic review of workforce innovation.	81 to 86

Nature of change	Paragraph
Updated guidance on the process for Current Issues Returns in local government.	115 to 130
Guidance on completing a brief information return for each body participating in the National Fraud Initiative.	139
Updated guidance on arrangements for sharing intelligence on risks in the health and social care system .	167 to 171

TGN on 2022/23 WGA returns

6. Professional Support has published a Technical Guidance Note (TGN) to provide auditors with guidance on examining and reporting on the 2022/23 Whole of Government Accounts (WGA) returns of public bodies in Scotland. TGN/WGA/23 is provided with supporting material to auditors on SharePoint* and also on the Audit Scotland website.

7. The National Audit Office (NAO) are the group auditor for WGA. Testing and reporting procedures that auditors are required to undertake in respect of providing assurance to the NAO on 2022/23 WGA returns above the threshold is included in the TGN. The procedures are consistent with the NAO's Group Audit Instructions but tailored to Scottish bodies. Reporting procedures include the submission of an Assurance Statement in a form prescribed by NAO.

8. No examination is required for bodies below the threshold, although auditors are required to complete the first eight sections of the Assurance Statement (except for minor bodies) and submit it to the NAO.

9. Auditors should examine and report on the 2022/23 WGA returns of public bodies in Scotland in accordance with the TGN, and make the required submissions as soon as reasonably practicable.

3: Local government sector

TGN on risks of misstatement in 2023/24

10. Professional Support has published TGN 2023/8(LG) to provide auditors with guidance on risks of misstatement in the 2023/24 annual accounts of local government bodies. The TGN is accessible by auditors on SharePoint*, along with supporting material, and is also available from the Audit Scotland website.

11. The TGN is intended to inform auditors' judgement when identifying and assessing the risks of material misstatement. The TGN supplements the Code of Audit Practice and auditors are expected to pay it due regard and use it as a primary reference source when performing 2023/24 audits. Auditors should advise Professional Support of any intended departures from the guidance.

12. The TGN comprises a number of modules as summarised in the following table:

Module	Risks of misstatement area	Purpose
Overview	Areas that are pervasive to the financial statements as a whole	Explains the appropriate related accounting treatment and sets out the action auditors should undertake to evaluate whether the body has followed the required treatment
1 - 9	Specific classes of transactions, balances and disclosures in the financial statements.	
10	Audited part of the Remuneration Report	Explains the requirements and sets out the action auditors should undertake
11	Statutory Other Information (e.g. Management Commentary and Annual Governance Statement)	Sets out the procedures for considering the Statutory Other Information
12	Integration joint boards	Provides guidance on the application of the above modules to these specific bodies
13	Pension fund accounts	
14	Section 106 charities	

13. The risks of misstatement reflect areas of complexity, subjectivity and uncertainty. They have been updated to reflect new requirements and risks which emerged during the 2022/23 audits that remain applicable. A separate note summarises the main changes from 2022/23.

Guidance on accounting for specific capital grant in 2023/24

14. The Scottish Government has published Finance Circular 6/2023 to provide statutory guidance on accounting for capital grant provided in place of revenue grant in 2023/24.

15. The statutory guidance adapts Finance Circular 3/2018 for 2023/24 to permit local authorities to transfer specified capital grant to the Capital Fund (rather than the Capital Adjustment Account) in order that it may be used to repay the principal of loans fund repayments for both General Fund and HRA loan repayments.

16. The amendment applies specifically to the £70 million of General Capital Grant provided in place of revenue grant in 2023/24 and to the additional £22 million of General Capital Grant provided to fund the Local Government pay award. The statutory guidance provides the consent of the Scottish Ministers required for the HRA loan repayments.

17. Once the capital grant held in the Capital Fund is utilised to fund the principal element of loan repayments, it must be transferred to the General Fund or HRA as a transfer from other statutory reserves in the Movement in Reserves Statement.

18. The capital grant must be utilised in 2023/24 and therefore may not be transferred to the Capital Grants (and Receipts) Unapplied Account.

New guidance on accounting for pension assets

19. Technical Bulletin 2023/2 (paragraph 27) provided guidance on recognising a net defined benefit asset in accordance with IFRC 14 when the pension fund reports a surplus as at 31 March 2023. The Chartered Institute of Public Finance and Accountancy (CIPFA) has published Bulletin 15 to provide guidance in this regard.

20.CIPFA considers that the IFRIC agenda decision in 2015 referred to in the technical bulletin guidance is likely to support a view that there is a minimum funding requirement. When a local government body estimates the future minimum funding requirement contributions, it should:

- include the amounts in the schedule of contributions for the fixed period specified by the schedule
- beyond that period, make an estimate that assumes a continuation of those factors establishing the minimum funding basis as determined by the administering authorities.

21. In order to carry out the calculation of any adjustment to the asset ceiling under IFRIC 14, it is necessary to identify the amount of employer contribution in each period that relates to future service. Bodies will need to consider:

- the portion of the employer contributions calculated using the primary rate

- whether any of the contribution calculated using the secondary rate should be included in the calculation.

22. Where an asset ceiling is applied, the bulletin highlights relevant requirements in the accounting code which require disclosure of:

- an explanation as to why the pension surplus reported under IAS 19 is not fully realisable and what 'realisable' means in this context
- the basis used to determine the amount of the economic benefit available.

Proposed amendments to loans fund repayments from 2023/24

23. The Scottish Government has issued a consultation draft* of proposed amendments to the requirements for calculating repayments to loans fund advances from 2023/24. Responses to the consultation require to be sent to Elanor.Davies@gov.scot by 22 December 2023.

24. The consultation seeks views on proposed amendments to:

- The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 20161 (the 2016 Regulations) which set out the statutory requirements for loans fund accounting
- Finance Circular 7/2016 (the statutory guidance) which sets out proper accounting practices for loans fund accounting.

25. The proposed amendments arise from Scottish Government concerns that:

- the application of the current level of flexibility in calculating loans fund repayments creates a future affordability risk for capital investment projects
- some local authorities may be making capital investment decisions that are being justified on value for money grounds by providing for loans fund repayments over excessively long periods
- the use of an annuity calculation to determine the pattern of loans fund repayments may result in a significant proportion of the repayments being deferred to future financial years.

26. The statutory framework differentiates between those advances before 1 April 2023 (covered by Regulation 14 of the 2016 Regulations) and those after 1 April 2023 (covered by the statutory guidance). There are also additional proposals related to capital projects approved after that date. It is therefore helpful to consider the how the proposals apply to three categories of loans fund advances, i.e. advances made:

- before 1 April 2023
- from 1 April 2023 relating to capital projects approved before that date
- from 1 April 2023 relating to capital projects approved after that date.

Loans fund advances made before 1 April 2023

27. The 2016 Regulations (at Regulation 14) permits a local authority to vary the period or amount of repayment of loans fund advances made before to 1 April 2023, if it considers it prudent to do so. The Scottish Government's concerns about the application of this power and how they proposed to address them by amending Regulation 14 is summarised in the following table:

Concern	Proposal
The power has been interpreted by local authorities as permitting the retrospective calculation of loans fund repayments	Any variation to a loans fund repayment may only be • calculated on the balance of the loans fund advance in the financial year of variation • applied to the remaining loans fund repayments from the financial year of variation.
The power is being used as a means of addressing budget pressures rather than to better reflect the financing of capital expenditure over a term commensurate with the benefits.	The repayment period cannot extend beyond the earlier of the remaining useful life of an asset or 50 years from the date of the advance. The decision to vary a loans fund repayment must be taken by the full council and cannot be delegated.

28. There are no proposed changes to the existing four options for repaying the advances set out in statutory guidance (i.e. statutory method, depreciation, asset life or funding profile).

Loans fund advances made from 1 April 2023 relating to capital projects approved before that date

29. Regulation 14 of the 2016 Regulations does not apply to advances made from 1 April 2023. Instead, the repayment of advances is covered in the statutory guidance. The statutory guidance requires prudent repayment of a loans fund advance over a period reasonably commensurate with the period and pattern of the benefits provided to the community from the capital expenditure.

30. The proposals to revise the repayment options in the statutory guidance are similar to the proposed amendments to the 2016 Regulations explained above in that they are intended to:

- clarify that where a loans fund advance relates to an asset, the prudent repayment period should usually align to the asset life but may not exceed 50 years

- confirm that, where an asset life cannot reasonably be attributed to an asset, the loans fund repayment period should align to the period over which benefit of the expenditure will be provided to the community but may not exceed 50 years and may not subsequently be varied.

- require that any variation to loans fund repayments may only be calculated on the balance of the loans fund advance outstanding in the financial year of variation and may only be applied prospectively.

Loans fund advances made from 1 April 2023 relating to capital projects approved after that date

31. The proposals summarised above to amend the statutory guidance for capital projects approved before 1 April 2023 also apply to those approved after that date.

32. However, there are additional proposals for projects approved after 1 April 2023, which are summarised in the following table:

Area	Proposals
Annuity calculation	The use of an annuity calculation (as part of the asset life method of calculating the repayment of the advance) is permitted only where the local authority can evidence that either the flow of benefits of the capital investment or a directly attributable revenue stream will increase over the asset life. Where an annuity is used, the interest rate applied should not exceed the weighted average PWLB borrowing rate of the authority.
Capital receipts	The use of capital receipts to fund the repayment of advances should be minimised.
Identification against a specific asset	Advances and repayments must be readily identified against a specific asset.
Repayment on derecognition	Advances must be repaid in full on derecognition of the related asset. In the case of obsolescence, a local authority may spread the repayment of the remaining loans fund advance over a maximum period of 5 years in order to smooth the effect on the General Fund.
Investment properties	A local authority should fully provide for debt taken on to acquire an investment property over the lifetime of the debt.

Draft statutory guidance on service concession arrangements

33. The Scottish Government has issued a consultation draft* of Finance Circular 7/2023 to provide revised statutory guidance on accounting for service concession arrangements, leases and similar arrangements from 1 April 2024.

34. The draft guidance replaces Finance Circular 10/2022 which temporarily permitted a local authority to recognise the principal repayments for a service concession arrangement over the asset life rather than contractual term. The temporary flexibility is not reflected in the new statutory guidance.

35. With the exception of those service concession arrangements to which the flexibility was applied in either 2022/23 or 2023/24, from 1 April 2024 the annual statutory charge to the General Fund for all existing and new service concession arrangements, leases and similar arrangements will be required to:

- reflect the principal element of the contractual repayments
- be charged to the General Fund over the term of the contract.

36. Finance Circular 10/2022 will continue to apply where the temporary flexibility was exercised.

37. In addition, there is the following proposed amendment to the statutory guidance for leases that are reclassified on transition to IFRS 16, where the authority is the lessor:

Lease reclassified as…	Treatment
Finance lease	Income received under the lease will continue to be treated as revenue income. Any capital receipt recognised on transition will be transferred to the General Fund and reported in the Movement in Reserves Statement.
Operating lease	Any income that would, prior to the reclassification, have been treated as a capital receipt should be transferred from the General Fund to the Capital Receipts Reserve, and the transfer should be reported in the Movement in Reserves Statement.

Proposed extension to statutory overrides for infrastructure assets

38. The Scottish Government has issued a consultation* on a proposed extension to 31 March 2025 of the statutory overrides for infrastructure assets. The statutory overrides are set out in Finance Circular 9/2022 (see Technical Bulletin 2022/3 paragraph 11) and are in respect of the disclosure and derecognition of infrastructure assets.

39. The overrides were intended to apply until 31 March 2024 while CIPFA/LASAAC sought a permanent solution. The proposed 12 month extension is in order to allow more time for the permanent solution to be implemented.

40. Responses to the consultation require to be sent to Elanor.Davies2@gov.scot by 15 December 2023.

Technical consultations with auditors

Professional Support responds to requests from auditors for technical consultations

41. The following tables summarise requests from auditors for technical consultations with Professional Support in respect of issues arising from the audit of the 2022/23 annual accounts of local government bodies, along with the advice offered:

Can an unfunded pension liability be offset against a net defined benefit asset?
Unfunded pension liabilities generally relate to provisions for discretionary enhancements to retirement benefits (e.g. payments for early retirement paid by the body rather than the pension fund). IAS 19 treats them as termination benefits. Bodies do not have a right to set off the unfunded liability against a pension asset. The unfunded liability should therefore be presented separately from the net defined benefit asset. Where future unfunded payments have been excluded by the actuary from the future employer contributions as part of the asset ceiling calculations, separate presentation should be straight-forward. However, where the actuary has included unfunded payments, bodies may need to request a recalculation. Where a recalculation is not carried out, as a minimum auditors should consider whether narrative disclosure is sufficient to explain that the defined benefit asset is net of the unfunded liability and the reasons for it.

Should the pension amounts as at 31 March 2023 in the balance sheet be adjusted to reflect the 31 March 2023 actuarial valuation?
Due to the timing of 2022/23 local government audits, the results of the triennial valuation as at 31 March 2023 may be available from actuaries before some audits are completed. The pension amounts as at 31 March 2023 in the balance sheet in the unaudited accounts were based on the 31 March 2020 actuarial valuation rolled forward. Where the audit of the 2022/23 financial statements for a local authority has been completed before the 2023 valuation reports are available, the financial statement will appropriately continue to reflect the 31 March 2020 valuation, as that is the most reliable, uptodate information. The 31 March 2023 actuarial figures will then be reflected in the balance sheet at 31 March 2024. However, where the 2023 actuarial reports become available before the 2022/23 audits are complete, that would represent an adjusting event. Auditors should assess whether the 31 March 2023 valuation is materially different from the estimate determined using the rolled forward figures currently in the balance sheet. An adjustment will be required if the difference is material. Auditors should liaise with the local government body to ensure that they can plan accordingly.

4 Central government sector

Update to SPFM

42. The Scottish Government has issued FGN 2023-2 announcing amendments to the Scottish Public Finance Manual (SPFM) relating to the Scottish Government's Business Investment Framework. The guidance on investment has been enhanced to:

- ensure that proportionate due diligence has been completed prior to support being provided
- highlight approval arrangements for novel or contentious investments
- clarify consideration of the risks of each investment and the estimation of the maximum potential financial exposure
- clarify monitoring arrangements, periodic reviews and exit strategies.

2023/24 discount rates

43. HM Treasury has issued PES (2023)10* to announce changes in the discount rates for general provisions, post-employment benefit liabilities, leases, and financial instruments as at 31 March 2024.

General provisions

44. The nominal discount rates to be applied as at 31 March 2024 for discounting general provisions recognised under IAS 37 are set out in the following table:

Category	Period	Percentage
Short term	Within 5 years	4.26%
Medium term	Between 5 and 10 years	4.03%
Long term	Between 10 and 40 years	4.72%
Very long term	More than 40 years	4.40%

45. As nominal rates do not take inflation into account, cash flows require to be inflated separately. There is a rebuttable assumption that the inflation rates specified in the paper will be used (unless other rates are clearly more applicable). The specified rates are:

- 3.6% for up to one year from the year end
- 1.8% between one and two years
- 2.0% for after two years.

Post-employment benefits

46. The discount rates for post-employment benefits are set out in the following table:

Use	Rate from 31 March 2024
Real rate used for valuing unfunded pension scheme liabilities and early departure provisions	2.45%
Nominal rate for unwinding discount on liabilities (interest)	5.10%
Rate used for funded pension schemes	Based on returns from AA corporate bonds at 31 March

Financial instruments

47. The financial instrument discount rates to be applied at 31 March 2024 are set out in the following table:

Type		Rate
Nominal rate when financial instrument is not linked to an inflationary index		2.05%
Real rate when financial instrument indexed to RPI	In excess of RPI:	
	Until February 2030	(1.05%)
	From February 2030	(0.05%)

Leases

48. Where a body cannot determine the interest rate implicit in a lease, they are required to use the nominal lease discount rate of 4.72%. This is relevant for new leases that commence or are remeasured between 1 January 2024 and 31 December 2024.

5 Professional matters

Revised ISA on external confirmations

49. The Financial Reporting Council (FRC) has issued a revised edition of ISA (UK) 505 External Confirmations. The main revisions are summarised in the following table:

Area	Change
Clarification on what constitutes an electronic external confirmation	Paragraph 6 (a) has been amended to reflect the fact that confirmations may be obtained thorough directly accessing information held by third parties through web portals or software interfaces.
Prohibition on the use of negative confirmations	Paragraph 6(c) prohibits the use of negative confirmations, where the confirming party responds directly only if they disagree with the information provided in the request. This aims to improve the quality of audit evidence obtained when auditors make use of external confirmations.
Designing confirmations to provide evidence for relevant assertions	Paragraphs 7(c) and A6-1 include additional material to ensure that auditors design confirmations to obtain sufficient appropriate audit evidence in relation to all assertions identified in respect of ISA (UK) 330. This is applicable to all means of confirmation but can be particularly relevant to certain forms of digital confirmation.
Enhanced requirements in relation to investigating exceptions	Paragraph 14-1 includes enhanced requirements when investigating exceptions. They direct auditors to consider if exceptions are indicative of fraud or a deficiency in the entity's system of internal control and how follow-up procedures will allow the auditor to obtain sufficient appropriate audit evidence.

Proposed revisions to ISA on laws and regulations

50. The FRC has issued an invitation to comment on proposed revisions to ISA (UK) 250A on laws and regulations. The main proposed revisions are summarised in the following table:

Area	Proposal
Removal of distinction between different categories of laws and regulations	The proposal removes the distinction between laws and regulations that determine material amounts and those that do not. There is a proposed requirement for auditors to identify those laws and regulations where non-compliance may have a material effect on the financial statements. A more robust risk assessment process is proposed to provide an effective mechanism for identifying the above laws and regulations.
Implementing a more risk-based approach	There is a proposal to replace the current overly procedural approach with an overarching requirement for auditors to design and perform risk assessment procedures to obtain audit evidence for the identification of laws and regulations where non-compliance may have a material effect on the financial statements (paragraph 12-1). Additional risk assessment requirements are set out in proposed paragraphs 12-2 and 12-3 . Paragraphs 14-1 and 15-1 introduce explicit requirements in respect of the risks of material misstatement due to fraud or error relating to non-compliance with laws and regulations. Paragraph 16-1 requires auditors to stand back and assess whether they have obtained sufficient appropriate audit evidence regarding whether there is a material misstatement of the financial statements relating to non-compliance with laws and regulations.
Adequacy of disclosures	There is a proposed new requirement for auditors to conclude whether the financial statements adequately reflect or, where appropriate, disclose the non-compliance or suspected non-compliance with laws and regulations.

51. There are also proposals to replace ISA (UK) 250B with a more principles-based standard covering reporting and communication with an appropriate authority.

52. The FRC is requesting comments on this consultation by 12 January 2024. Comments should be sent to: AAT@frc.org.uk.

Thematic review on audit sampling

53. The FRC has published a thematic review on audit sampling. Audit sampling is a fundamental audit tool which allows conclusions to be drawn about a population based on the sample selected. The FRC reviewed the sampling methodologies of the largest audit firms to:

- identify areas of good practice

- highlight any concerns that will drive improvements and support the FRC's monitoring of the firms' systems of quality management.

54. The review concluded that:

- audit sampling for tests of detail and controls is still prevalent despite the advent of tools such as Audit Data Analytics
- most firms' methodologies are based on similar statistical models with firms building on these with their own guidance and preferences.
- significant professional judgements are made in audit sampling, particularly when using sample size calculators, including when assessing inherent risk and determining the contribution of evidence from other procedures. However, the review found insufficient evidencing of the key professional judgements made when determining sample sizes.

55. The review also highlighted the specific points summarised in the following table:

Area	Finding
Key items selection and selecting specific items This involves selecting specific items to test from the population before then selecting a sample of the residual population.	Most firms focus on high value items. The FRC founds insufficient documentation of the reasons for selecting specific items. Justification was generally focused on size, such as "selecting everything over 50% of performance materiality", with no consideration of why that was an appropriate threshold.
Haphazard selection versus random selection: • Haphazard selection involves the auditor selecting the sample without following a structured technique. • Random selection is applied through random number generators and reduces the risk of bias in sample selection.	Haphazard sampling was historically most useful when transaction listings were not available from audited entities in an electronic format that would allow for random sampling. Haphazard sampling may still be appropriate in limited circumstances, but justification should be documented. Random selection is preferable and should be used when feasible to do so. The FRC identified confusion in the sample selection method applied, e.g. where the sample calculator stated "Random" as the means of sample selection but "Haphazard" was actually used by the audit team.

Area	Finding
Testing the reliability of information produced by the entity (IPE) IPE testing used fixed sample sizes to determine if system-generated or manually produced information is reliable before audit procedures are performed on it to obtain audit evidence.	Some audit teams did not understand that IPE testing assesses the reliability of the information to be used as audit evidence, rather than being a test over the monetary value of a population.
Compliance with quality management standards ISQM (UK) 1 states that even when firms belong to networks and make use of resources, the firm "remains responsible for its system of quality management, including professional judgements made in the design, implementation and operation of the system of quality management".	All the firms' methodologies were driven by a global methodology, usually developed centrally outside the UK, and then adopted by the member firms worldwide. Firms need to ensure they have a proper and full understanding of the sampling techniques developed globally, and are able to understand and apply those methodologies in the UK. Some firms struggled initially to explain how, often due to the time that had elapsed from the model's original development. Firms need to be able to clearly explain how they developed their methodologies from more general statistical models even when the deployment was some years ago.

6. Fraud and irregularities

This chapter contains a summary of fraud cases and other irregularities facilitated by weaknesses in internal control at audited bodies that have recently been reported by auditors to Professional Support.

Auditors should consider whether weaknesses in internal control which facilitated each fraud or irregularity may exist in their bodies and take the appropriate action.

Expenditure

Kinship care (1)

56. A kinship carer received £30,000 over a two-year period after a child's placement with them ended.

Key features
The overpayment was identified by the council internal audit service when they were carrying out testing on the council's social work system. The overpayment occurred as the social worker responsible for the child did not undertake regular monthly checks to ensure that the child was still placed with the stated carer. Procedures have been strengthened and pre-payment accuracy checking has been introduced on scheduled payment runs. Recovery action is being taken.

Kinship care (2)

57. A kinship carer received over £5,000 over a six-month period after a child's placement with them ended.

Key features
The overpayment occurred as the kinship carer did not follow due process when the child returned to parental care. In addition, social work staff were unaware of the required process which resulted in a failure to complete appropriate documentation to terminate the kinship placement payments. The overpayment was identified when an employee was reviewing their caseload in advance of their retirement and identified that the kinship carer was still being paid.

Key features

Although a criminal investigation was carried out, the case was not referred to the Procurator Fiscal as the service was unable to produce admissible evidence in the form of the relevant kinship agreement form.

Following investigation:

- **annual reviews of kinship placements have been introduced**
- **checks are now carried out on children's names to prevent duplicate payments**
- **staff have been reminded that kinship carer agreements must be completed and retained**
- **staff involved in kinship care have been provided with a practical guide which they must acknowledge as having read, understood, and accepted.**

Bank mandate fraud (1)

58. An unknown individual compromised a manager's email account at a public body and committed bank mandate fraud. Payments totalling £15,700 were made to a fraudulent bank account.

Key features

An unsecure internet connection used by the manager appears to have been used to gain access to the manager's email account. Email instructions, purporting to come from the manager, were then sent requesting a change to a supplier's bank details.

The fraud was identified during a review of authorised expenditure on a project.

The fraud was possible due to inadequate procedures around the confirmation of new bank details with suppliers.

The public body has since heightened the vigilance of finance employees and strengthened procedures for verifying new or changes to bank account details. In addition, existing supplier's bank details are being verified.

Bank mandate (2)

59. An unknown individual compromised the systems of a business working with the public body to request a change to bank details. Payments totalling £5,800 were subsequently made to a fraudulent bank account.

Key features

The systems of a business working with the public body were compromised, and correspondence was intercepted.

A similar email address to that of the business was used to send an email to the public body requesting a change in bank details. The public body sought explanation for the change in bank details and accepted the explanations given. However, this was done through the fraudulent email account.

Key features
The fraud was identified when the legitimate business reported that the payments had not been received. The public body have since strengthened procedures for changes to bank account details. This involves a telephone call to the business or customer using the contact details stored centrally, and monthly management checking of payments made. The case has been reported to Police Scotland.

Misuse of assets

60. An employee misused a council vehicle and the corporate time recording system to obtain benefits worth over £5,200.

Key features
An employee used a council vehicle for personal use during business time, as well as accruing time on the corporate time recoding system that they had not worked. The fraud was identified following receipt of an anonymous allegation that the employee was using a council vehicle to take their child to and from school. The fraud was possible due to a lack of review or monitoring of time records. Steps have since been taken to ensure staff are aware of the requirements of the flexible working hours policy, the time recording guide and any service-specific requirements. Stricter monitoring by service managers of employees' time recording has been put in place and staff have been reminded that fleet vehicles must not be used for personal use. The employee's actions have been reviewed under the council's disciplinary policy and full recovery is being progressed through salary deductions.

Technical Bulletin 2023/4

Technical developments and emerging risks from September 2023 to December 2023

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:
www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or
subscribe to our email alerts.

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

AS.4.0